

Performance Audit No. 15-03

A Performance Audit of Financial Reporting in Public Education



**OFFICE OF THE
UTAH STATE AUDITOR**

Page Left Blank Intentionally



OFFICE OF THE
UTAH STATE AUDITOR

November 4, 2015

The Office of the Utah State Auditor conducted *A Performance Audit of Financial Reporting in Public Education* and presents its findings herewith. The purpose of this audit was to evaluate the use of available reports to monitor the implementation of strategic objectives and to identify potential cost-saving practices.

Though reporting could improve for some LEAs, current reporting levels allow for certain cost comparisons among most LEAs. Combining categorized school district costs with the results from a school district business administrator survey, we identified 10 practices correlated with lower costs among school districts in administration, operations and maintenance, and food service. Implementation of these potentially cost-saving practices could help free up resources for other priorities. Additionally, increased detail and accuracy of financial reporting will enable further analysis to identify and align strategic goals with financial commitments.

During audit field work, we identified several transactions that appeared to contain the names and personally identifiable information of individual students. Based on the risks posed to students, the audit scope was modified to determine (1) if LEAs publicly disclosed personally identifiable student information and (2) the extent of the possible inappropriate disclosure. It appears that more than 5,500 publicly-disclosed transactions contained personally identifiable student information. We are concerned about the effect that this public disclosure of personally identifiable student information may have on affected individuals.

Finding 1 shows that improved transparency of LEA reporting would allow the State Board of Education to better use financial reports to identify efficient practices. **Finding 2** demonstrates 10 potential cost-saving practices that school districts could implement. **Finding 3** elaborates on concerns regarding the apparent public disclosure of personally identifiable student information.

We appreciate the cooperation from the State Board of Education, the Utah State Office of Education, and individual LEAs during the course of this performance audit.

David S. Pulsipher, CIA, CFE
Performance Audit Director

Audit Supervisor: Chris Otto, MPA
Chief Economist: David Stringfellow, MPP
Audit Staff: Taylor Mosolf, JD
Charlie Fuller, MPA

Page Left Blank Intentionally

Executive Summary

Finding 1: Improving Reporting to the Utah Public Finance Website (UPFW) Would Increase Spending Transparency and Reliability. Local education agencies' (LEAs) transactions reported on the UPFW appear to be largely accurate, though some LEAs could improve the accuracy of their financial reporting. The State Board of Education (State Board) should instruct its office to take additional steps to improve the quality of financial information to give stakeholders greater confidence in LEA reports and to promote strategic alignment with financial resources. Additionally, the State Board and its office should clarify portions of the chart of accounts that some LEAs frequently misunderstand. Taking these steps should further improve the quality, accuracy, and transparency of LEA financial reporting to enhance meaningful comparisons across spending categories and between LEAs, to improve the efficient use of limited resources.

Finding 2: Adopting Certain Practices Could Free up Resources for Other Priorities. Conducting regular cost comparisons among similar LEAs could help the State Board to identify practices correlated with lower costs. We identified ten practices that are correlated with lower costs per student in administration, operations and maintenance, and food services. School districts that claim to follow certain practices in a given category have lower costs per student in that category than their peers. The Utah State Office of Education (USOE) could conduct a similar comparison for charter schools.

The State Board should regularly identify practices correlated with lower costs and train LEA boards and management on the potential to reduce costs through greater efficiency. While it may be difficult for some smaller school districts to realize the same economies of scale as larger school districts, regular comparisons among school districts with similar characteristics could help the State Board identify efficient practices for all school districts.

Finding 3: LEAs Publicly Disclosed Personally Identifiable Student Information on State Transparency Website. LEAs publicly disclosed personally identifiable student information in potentially thousands of transactions posted on the UPFW. Several of these transactions appear to reference highly confidential student information, such as LEA payments for student medical and psychological services. We are concerned about the effect that publicly disclosing personally identifiable information may have on students.

In addition to threatening student privacy, these actions may violate the *Family Education Rights and Privacy Act* (FERPA), a federal law that establishes requirements for the protection of privacy of both parents and students, and state statute which incorporates FERPA. Additionally, those entries related to special education students may also violate the *Individuals with Disabilities Education Act*, which also incorporates and cross-references the privacy protections of FERPA.

We recommend that these LEAs immediately (1) amend any transactional information that improperly divulged personally identifiable student information, (2) take appropriate measures to prevent any future disclosures, and (3) notify parents or guardians where appropriate. The State Board and the USOE could help prevent future improper disclosures by periodically reviewing a sample of publicly disclosed transactions.

Page Left Blank Intentionally

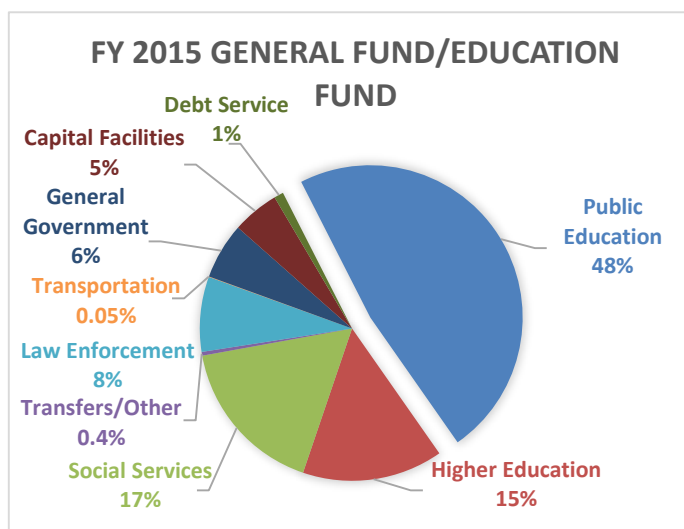
Table of Contents

Executive Summary	5
Table of Contents	7
Background	9
Finding 1: Improving Reporting to the UPFW Would Increase Spending Transparency and Reliability	11
LEAs Prepare Several Useful Financial Reports	11
Thirteen LEAs Failed to Accurately Report Almost \$900 Million to the UPFW in Accordance with Statute	12
The Majority of <i>Reported</i> School District Expenditures Appear Accurate, but Charter School Reporting Could Improve	13
Correcting Localized Reporting Problems Will Increase the Integrity and Usefulness of LEA Reports	14
The USOE Could Do More to Improve LEA Financial Reporting Accuracy	17
Financial Reports Could Be Used to Identify Key Student Outcome Indicators	20
Recommendations	21
Finding 2: Adopting Certain Practices Could Free up Resources for Other Priorities	23
Comparing School District Practices to Operating Expenses Highlights Opportunities for Cost Savings	23
Five Administrative Practices are Correlated With Reduced School District Costs per Student	24
Two O&M Practices Are Correlated with Reduced School District Costs per Student	30
Three Food Service Practices are Correlated With Reduced School District Costs per Student	32
Recommendations	36
Finding 3: LEAs Publicly Disclosed Personally Identifiable Student Information on State Transparency Website	37
LEAs Likely Publicly Disclosed Personally Identifiable Student Information in More than 5,500 Transactions Since 2009	37
Additional Disclosures of Personally Identifiable Student Information Are Likely	38
Improper Disclosures Threaten Student Privacy And While Jeopardizing Federal Funding	39
Recommendations	40
Appendix A: Audit Scope, Methodology, and Limitations	41
Appendix B: Peer Group Profiles.....	43
Appendix C: LEA Business Administrator Survey Summary	53
State Board of Education Response	57

Page Left Blank Intentionally

Background

The *Utah Constitution* requires the Legislature to establish and maintain a system of public education.¹ To ensure this constitutional requirement is met, the Utah State Board of Education (State Board) is responsible for “general control and supervision”² of the state’s public education system. In fiscal year 2014, the State Board oversaw the education for the 611,740 students in 41 school districts and 95 operating charter schools. The chart to the right shows the percent of state funds committed to public education in fiscal year 2015.³



The 41 school districts spent \$4.7 billion dollars to educate 556,840 students during the 2013-2014 school year. Whereas, the 95 charter schools in operation during the 2013-2014 school year served 54,900 students.⁴ In total, charter schools spent \$469 million dollars during fiscal year 2014. Combined spending by both school districts and charter schools totaled \$5.2 billion dollars.⁵

To achieve its constitutional and statutory responsibilities, the State Board has stated that the mission of Utah’s public education system is:

- Ensuring literacy and numeracy for all Utah children.
- Providing high quality instruction for all Utah children.
- Establishing curriculum with high standards and relevance for all Utah children.
- Requiring effective assessment to inform high quality instruction and accountability.⁶

The State Board is an executive branch board that consists of 15 elected members.⁷ In carrying out its duties, the State Board may adopt rules and policies, and may interrupt disbursements of state aid to any district which fails to comply with these adopted rules.⁸ Additionally, the State Board is statutorily required to “establish rules and minimum standards” which explicitly include governing: state reimbursed bus routes; school productivity; cost effectiveness measures; school

¹ UT Const. art. X, §§ 1, 3; Utah Code § 53A-1-101(1)(b).

² UT Const. art. X, § 3; Utah Code § 53A-1-401(1)(a).

³ 2014-2015 Budget of the State of Utah and Related Appropriations, Office of the Fiscal Analyst.

⁴ Based on October 2014 Enrollment.

⁵ 2014 Annual Financial Report.

⁶ Utah State Board of Education’s “Mission of Public Education,” updated January 28, 2014.

⁷ Utah Code § 20A-14-101.5(2).

⁸ Utah Code § 53A-1-401(3).

budget formats; as well as financial, statistical, and student accounting requirements.⁹ The State Board is also required to determine if these adopted minimum standards have been met and the required reports have been properly submitted.¹⁰

To administer these policies and standards, the State Board appoints a state superintendent of Public Instruction, who “serves at the pleasure of the [State] Board,”¹¹ and functions as its executive officer.¹² The state superintendent is responsible for the design, implementation, and monitoring of State Board-adopted program outcomes, reporting requirements, and financial compliance.¹³ The state superintendent oversees an office – the Utah State Office of Education (USOE) – to assist with these responsibilities.

The USOE, through its directors, coordinators, and program specialists, acting as designees of the state superintendent, is responsible for the day-to-day support and oversight of the state’s public education system. The USOE generally serves in three administrative roles: program development and implementation; compliance and assessment; and as an intermediary for federal programs.

First, the USOE provides support and direction for a wide range of topic areas and programs by establishing uniform processes and standards. These topic areas include financial reporting, curriculum development, professional development, and pupil transportation. The USOE also oversees state programs, such as the School LAND Trust, Adult Education, Youth in Custody, and Career and Technology Education, among other programs. Additionally, the USOE develops and provides resources for information and educational technology to school districts and charter schools.

Second, the USOE is responsible for overseeing compliance with these established requirements, as well as ensuring program outcomes and monitoring the financial propriety of school districts and charter schools.¹⁴ The USOE also oversees teacher licensing, and is responsible for assessing and providing statistical information about students’ core knowledge, skills, and abilities.

Finally, the USOE acts as an intermediary with the Federal Government in implementing and ensuring compliance with federal programs. It is responsible for financial and statistical reporting tied to federal funding, as well as the implementation and compliance with Federal Title programs, Special Education, civil rights monitoring, and Child Nutrition requirements.

⁹ Utah Code § 53A-1-402(1).

¹⁰ Utah Code § 53A-1-402(2).

¹¹ Utah Code § 53A-1-301(1)(a).

¹² UT Const. art. X, § 3; Utah Code § 53A-1-301(1)(a).

¹³ Utah Admin. Code R277-114-3-A(1) & (3).

¹⁴ Utah Admin. Code R277-114-3-A(3).

Finding 1

Improving Reporting to the UPFW Would Increase Spending Transparency and Reliability

Local education agencies' (LEAs)¹⁵ transactions reported on the Utah Public Finance Website (UPFW) appear to be largely accurate, though some LEAs could improve the accuracy of their financial reporting. The State Board of Education (State Board) should instruct its office to take additional steps to improve the quality of financial information to give stakeholders greater confidence in LEA reports and to promote strategic alignment with financial resources. Additionally, the State Board and its office should clarify portions of the chart of accounts that some LEAs frequently misunderstand. Taking these steps should further improve the quality, accuracy, and transparency of LEA financial reporting to enhance meaningful comparisons across spending categories and between LEAs, to improve the efficient use of limited resources.

Instances of inaccurate financial reporting to the UPFW are generally localized to a limited number of LEAs. The five major categories of reporting errors to the UPFW are:

1. Failure to report any expenditures
2. Reporting incomplete data, or data not formatted for the UPFW
3. Irreconcilable financial reporting
4. Miscoding transactions
5. Redundant uploads

Detailed reporting would also enable the State Board and LEAs to better align financial resources with strategic objectives. Currently, LEAs do not track expenditures by course or curriculum, although a significant amount of testing occurs at that level.

LEAs Prepare Several Useful Financial Reports

In addition to preparing audited financial statements, LEAs create an Annual Financial Report (AFR), an Annual Program Report (APR), and report transactions on the UPFW. Each of these reports rely on each respective LEA's general ledger.

The AFR, a required report for all LEAs, details revenues and expenditures and is prepared on the modified accrual basis accounting method. The financial data is reported by fund, with the general fund being the largest, accounting for the majority of operating expenses. Revenues and expenditures are further organized within each fund by function and object code. These account codes follow the Utah State Office of Education's (USOE) uniform chart of accounts, which is based on the National Center for Education Statistics account codes and definitions. The AFR then summarizes and aggregates the data by LEA.

¹⁵ A "local education agency" refers to each individual school district or charter school.

The APR is another required report for all LEAs and is organized by program and object code. The APR reports all LEA financial data tied to a major program, such as Special Education, Career Technology Education, or capital projects, and then summarizes the revenue and expenditures associated with that specific program. The APR also includes revenues and expenditures for legislative program earmarks, like Class Size Reduction and K-3 Reading.

The UPFW is a website where local government agencies, including LEAs, post public financial data. LEAs with an annual budget in excess of \$1 million are required to post their financial information to the UPFW.¹⁶ The Division of Finance administers the UPFW under the direction of the Utah Transparency Advisory Board. The UPFW is the only statewide reporting mechanism wherein LEAs report individual transactions. Transactional information is necessary to analyze expenditure level detail of how education funds were spent by each LEA.

Thirteen LEAs Failed to Accurately Report Almost \$900 Million to the UPFW in Accordance with Statute

At the time of our analysis, six school districts and seven charter schools either submitted unusable reports to the UPFW or did not report any expenditures. These 13 LEAs are entrusted with almost \$900 million which were improperly accounted for on the UPFW. Inaccurate reporting limits the ability of the State Board and each respective local school board to align costs with strategic objectives.

The purpose of the UPFW is to allow stakeholders – including the public – the ability to review and track the use of taxpayer funds by making public financial information easily accessible. The state’s *Administrative Services Code* requires LEAs to provide all public financial information to the UPFW, or their own website.¹⁷ Administrative policy further requires that LEAs

submit detail [sic] revenue and expense transactions from their integrated financial accounting system . . . at least quarterly and within one month after the end of the fiscal quarter, . . . [and] year end transactions as soon as possible after year end.¹⁸

Statute also requires that the submitted information be:

in accordance with the uniform chart of accounts that school districts and charter schools are required to use for budgeting, accounting, financial reporting, and auditing purposes pursuant to rules adopted by the State Board of Education.¹⁹

¹⁶ Utah Public Finance Website Policy #01-01.02.

¹⁷ Utah Code § 63A-3-405(1).

¹⁸ Utah Public Finance Website Policy #01-01.02.

¹⁹ Utah Code § 63A-3-406.

Despite the statutory requirement, the Utah Transparency Advisory Board, who oversees the website, has no statutory means to enforce compliance.²⁰

Though the financial reports on the UPFW are historically unaudited, they provide valuable information that give stakeholders the ability to conduct more in-depth analysis of LEA spending. Figure 1.1 shows the 13 LEAs that did not report usable data to the UPFW and the amount of the discrepancy between data reported in the LEAs' 2014 AFRs and transactions reported to the UPFW for fiscal year 2014.

Figure 1.1 LEAs Fiscal Year 2014 Financial Information
Posted Incompletely to the UPFW²¹

LEA	Amount
Canyons School District	\$316,739,068
Washington School District	\$255,276,002
Weber School District	\$255,008,098
Juab School District	\$18,893,058
Utah Virtual Academy Charter School	\$13,455,408
Garfield School District	\$10,823,508
Freedom Academy Charter School	\$6,529,764
Tintic School District	\$4,478,595
Walden School Charter School	\$3,405,081
Edith Bowen Charter School	\$3,224,666
Canyon Rim Academy Charter School	\$3,053,395
Uintah River High Charter School	\$1,129,819
Utah Career Path High School Charter School	\$1,076,478
Total	\$893,092,940

Source: OSA analysis of LEA reports

These 13 LEAs represent approximately 17 percent of all fiscal year 2014 education expenditures. One LEA, Tintic School District, has never reported financial data to the UPFW, despite statutory reporting requirements. Failure to submit timely reports, or submitting inaccurate or unusable reports, limits stakeholders' ability to evaluate individual expenditures or identify potential best practices.

The Majority of *Reported* School District Expenditures Appear Accurate, but Charter School Reporting Could Improve

Excluding the six school districts in Figure 1.1, almost 95 percent of school district transactions submitted to the UPFW could be reconciled to their AFRs.²² Although the quality and accuracy of school district financial reporting to the UPFW could still improve, most school district financial

²⁰ The Office of the Utah State Auditor's local government division began enforcing compliance effective July 2015.

²¹ As of June 4, 2015.

²² 35 of the 41 school districts submitted transactions to the UPFW for FY 2014.

data appears to be more accurate than previously indicated and data for most LEAs can be used to make broad comparisons across LEAs.

However, some charter schools should improve compliance with the statutorily required reporting requirements. Excluding the seven non-reporting charter schools in figure 1.1, only 84 percent of charter school expenditures reported to the UPFW could be reconciled to their AFRs.

School District Financial Reporting to the UPFW Appears More Accurate than Charter Schools.

LEAs are required to report all expenditures according to the unified chart of accounts provided by USOE.²³ Moreover, LEAs should report all required financial transactions to the UPFW to increase accountability for the use of education funds and to comply with statute. Figure 1.2 shows the level of reconciliation of total LEA expenditures from AFRs²⁴ to the UPFW.

**Figure 1.2 Reconciliation of AFRs with the UPFW for
LEAs that Submitted Usable Reports**

Source	School District Expenditures	Charter School Expenditures
AFR	\$3,876,350,340	\$433,577,884
UPFW	\$3,687,089,653	\$363,308,305
Difference	\$189,260,687	\$70,269,579
Error Rate	5%	16%

Source: OSA analysis of LEA reports

Increased accuracy of financial reporting to the UPFW – especially among charter schools – would improve the reliability of the data and would allow for in-depth comparisons and analysis.

Correcting Localized Reporting Problems Will Increase the Integrity and Usefulness of LEA Reports

While most school districts' AFR totals can be reconciled with reports to the UPFW, seven school districts could significantly improve reporting to the UPFW. AFR reports differed from UPFW reports by at least 10 percent for each of these school districts.

A Limited Number of LEAs Are the Source of the Majority of Reconciliation Errors in the UPFW.

Figure 1.3 shows the reporting discrepancies of these seven school districts. Each school district had a discrepancy of 10 percent or more where AFR totals did not match those reported to the UPFW.

²³ Utah Code § 63A-3-406.

²⁴ LEAs listed in figure 2.1 were eliminated from consideration.

Figure 1.3 School District Reporting Discrepancies To the UPFW Greater than 10 Percent

School District	AFR Reported Expenditures	UPFW Reported Expenditures	Absolute Difference	Error Rate
Duchesne	\$50,703,519	\$45,588,672	\$5,114,847	10%
Wayne	\$6,236,849	\$6,928,511	\$691,662	11%
Millard	\$37,393,740	\$41,552,378	\$4,158,638	11%
Davis	\$535,630,188	\$448,949,360	\$86,680,828	16%
Nebo	\$260,392,167	\$303,605,130	\$43,212,963	17%
Tooele	\$109,853,031	\$44,632,945	\$65,220,086	59%
No. Summit	\$11,148,359	\$20,665,538	\$9,517,179	85% ²⁵

Source: OSA analysis of LEA reports

Increasing the reporting accuracy of these seven school districts will further increase stakeholder confidence in LEA reports while enhancing meaningful comparisons. In addition to the school districts with significant discrepancies in reporting to the UPFW, 29 charter schools had discrepancies of greater than 10 percent,²⁶ as shown in Figure 1.4.

²⁵ The reason for North Summit School District's reporting discrepancy appears to be the result of duplicate entries.

²⁶ Charter schools with a budget of less than \$1 million are not required to submit financial data to UPFW and were not shown in the table.

Figure 1.4 Charter School Reporting Discrepancies To the UPFW Greater than 10 Percent

Charter School	AFR Amount	Transparency Data	Absolute Difference	Error Rate
Providence Hall	\$30,135,718	\$27,104,957	\$3,030,761	10%
Syracuse Arts Academy	\$6,045,351	\$5,433,148	\$612,203	10%
Pinnacle Canyon Academy	\$4,512,245	\$4,005,047	\$507,198	11%
Entheos Academy	\$20,017,375	\$17,689,351	\$2,328,024	12%
Guadalupe Schools	\$1,547,493	\$1,327,351	\$220,142	14%
Quail Run Primary School	\$3,220,799	\$2,750,462	\$470,337	15%
Early Light Academy at Daybreak	\$4,961,662	\$4,166,603	\$795,059	16%
North Davis Preparatory Academy	\$5,805,465	\$4,870,648	\$934,817	16%
Maria Montessori Academy	\$3,244,633	\$2,710,913	\$533,720	16%
Aristotle Academy	\$1,251,396	\$1,503,695	\$252,299	20%
Liberty Academy	\$2,947,023	\$2,251,442	\$695,581	24%
Dual Immersion Academy	\$3,207,827	\$2,426,773	\$781,054	24%
Paradigm High School	\$4,416,634	\$3,269,372	\$1,147,262	26%
C.S. Lewis Academy	\$2,809,637	\$2,028,886	\$780,751	28%
Valley Academy	\$2,856,729	\$2,052,999	\$803,730	28%
Rockwell Charter High School	\$4,006,101	\$2,793,196	\$1,212,905	30%
Weilenmann School of Discovery	\$4,348,644	\$2,982,201	\$1,366,443	31%
Itineris Early College High	\$7,466,312	\$5,018,023	\$2,448,289	33%
North Star Academy	\$3,327,212	\$2,228,914	\$1,098,298	33%
Quest Academy	\$5,214,559	\$3,390,474	\$1,824,085	35%
Hawthorn	\$5,068,803	\$2,760,196	\$2,308,607	46%
Mana Academy	\$6,094,408	\$3,097,076	\$2,997,332	49%
Pioneer School for the Performing Arts	\$3,033,742	\$1,177,745	\$1,855,997	61%
Wasatch Peak Academy	\$7,327,928	\$2,518,554	\$4,809,374	66%
Spectrum Academy	\$12,313,602	\$4,122,145	\$8,191,457	67%
Promontory School for Expeditionary Learning	\$9,201,108	\$2,676,023	\$6,525,085	71%
Ogden Preparatory Academy	\$9,172,346	\$2,228,914	\$6,943,432	76%
High Mark Charter School	\$14,557,996	\$3,513,924	\$11,044,072	76%
Fast Forward Charter High School	\$2,043,773	\$3,948,480	\$1,904,707	93% ²⁷

Source: OSA analysis of LEA reports

The State Board should instruct the USOE to follow up with the LEAs listed in Figure 1.3 and 1.4 and ensure data is properly reported to the UPFW. Correcting reporting errors from LEAs will increase stakeholder reliance on expenditures reported in the UPFW, while also enabling opportunities to conduct meaningful comparisons.

²⁷ The reason for Fast Forward Charter High School's reporting discrepancy appears to be the result of duplicate entries on UPFW.

Some LEAs Appear to Have Improperly Coded Spending to Instruction. Though overall coding inaccuracies among LEAs reviewed appeared to be less than one percent of all school district instruction expenditures and 3.25 percent of all charter school instruction expenditures, some individual LEAs appear to need additional training. Six school districts and 21 charter schools appear to have improperly overstated spending on instruction by at least 2 percent, which accounts for much of the discrepancy. Figure 1.5 shows the LEAs that had the highest percent of likely errors.

Figure 1.5 LEAs with Over 7 Percent of Improperly Categorized Spending in “Instruction”

LEA	Percent of Spending Miscategorized
Legacy Preparatory Academy	26.79%
Itineris Early College High School	16.06%
Liberty Academy	13.87%
Piute School District	12.56%
American Preparatory Academy	9.83%
East Hollywood Academy	9.30%
Mountain Heights Academy	8.34%
Wasatch School District	7.80%
Fast Forward High School	7.38%

Source: OSA analysis of LEA Reports

These nine LEAs accounted for roughly \$7.5 million in expenditures that were likely improperly classified as instruction expenditures. Although most instances of improper data categorization can be attributed to errors at the LEA, ambiguity in the reporting definitions likely caused some of the discrepancies. The State Board should instruct the USOE to address the problems this ambiguity causes and train LEAs on proper reporting.

The USOE Could Do More to Improve LEA Financial Reporting Accuracy

The USOE could provide additional clarity for how LEAs should report financial data by eliminating duplication and adding specificity to some sections of the uniform chart of accounts. In addition, the USOE could use the analysis developed during the audit to identify LEAs that report inaccurately or improperly categorized expenditures.

The USOE Should Address Ambiguity in the Chart of Accounts. Several chart of account definitions are unclear and may have caused some inaccurate reporting. Approximately two percent of all instruction spending at school districts may have been improperly coded in financial reports and could be explained by varying interpretations of the USOE uniform chart of accounts. In addition, more than seven percent of charter school spending in instruction appears to be miscoded and could also be attributed to unclear definitions. Consistency in reporting to the

UPFW will increase stakeholder confidence in LEA reports while enhancing the reliability of comparisons among similar LEAs. Although the majority of errors were more prominent among some specific LEAs, the USOE can improve consistency by clarifying definitions in the chart of accounts. Figure 1.6 highlights some of examples where ambiguities in the chart of accounts were identified.

Figure 1.6 Ambiguous Chart of Account Examples

Code Title	Code Number(s)	Explanation
Object and Sub-object Title Codes	(e.g., 100, 200, 300, 410, 430, 440, 620, 730, etc.)	LEAs coded expenditures to these object codes instead of using more specific and appropriate codes.
Miscellaneous Style Codes	(e.g., 190, 198, 199, 340, 490, 689, 890)	These object codes allow for the classification of unique expenditures, but a number of LEAs appear to be using these inconsistently and unsparingly.
Technology Related Codes	(e.g., 650, 670, 730, 734, 736, 739, 740)	There are a multitude of object codes where LEAs are coding technology related hardware and software, some which are not correct, with many of these object codes overlapping.
Software Code	(e.g., 670)	A large amount of school districts and charter schools coded expenditures to this object code in instruction, despite the USOE object definition explicitly stating “not used for instructional purposes.”

Source: USOE Chart of Accounts

Simple clarification would likely prevent future confusion on how LEAs should classify certain types of expenditures. Incomplete or inaccurate information inhibit stakeholders, including the State Board and local school boards, from conducting thorough analysis of school expenditures.

Additional Training Could Reduce Erroneous Reporting. As mentioned earlier, the majority of the reporting errors were made by a few LEAs. The USOE could likely reduce these reporting errors by providing targeted training to LEAs that report incorrectly. Figure 1.7 demonstrates examples of some expenses that appear to be miscoded based on the USOE’s chart of accounts definitions.

Figure 1.7 Examples of Seemingly Miscoded Expenses

Expense	Proper Code	Code Used by LEA
Computers	Object code 734 – Technology-related Hardware	Object code 740 – Infrastructure, which USOE defines as “[e]xpenditures for purchased infrastructure assets by the school district. These items include water/sewer systems, roads, bridges, and other assets that have significantly longer useful lives than other capital assets.” ²⁸
Introduction to Career Technical Education	Would depend on each individual type of expenditure that is being used within the program.	Object code 732 – School Buses ²⁹
Trash services – Object 412	Function 2610 – Operation of Buildings	Function 1000 – Instruction
Accounting services – Object 310	Function 2510 – Fiscal Services	Function 1000 – Instruction
School Lunch	Function 3100 – Food Services	Function 1000 – Instruction

Source: USOE Chart of Accounts

Inconsistent reporting complicates accurate reviews of some LEA expenses and lowers overall confidence in their financial reports. Improved definitions and greater training from the USOE would increase financial reporting transparency and improve the reliability of mandatory reporting to the UPFW.

Charter Schools Can Improve Accuracy by More Closely Following the USOE Chart of Accounts.

The majority of charter schools use accounting software that lacks the sophistication to directly report financial data to the UPFW without the use of a crosswalk.³⁰ The use of crosswalks was the Division of Finance’s solution to bringing a certain level of uniformity to the inconsistent data that was being submitted.

A sample of these crosswalks showed that many charter schools use internal codes that are too general to be converted to the more specific object codes used by the USOE. In multiple instances, the charter school crosswalks did not properly attribute the charter school’s internal code to the proper USOE code, or it was simply converted to a more general USOE object code.

If all charter schools were to use the applicable elements of the USOE chart of accounts to the level of specificity that was intended, the USOE would likely improve the accuracy of charter

²⁸ The district informed our office that they would be coding future computer expenditures to object code 734.

²⁹ The district explained that they were using this object code as a means to tie expenditures to individual teachers, who were each assigned unique object codes.

³⁰ A crosswalk is a template that was created by the Division of Finance staff to allow some LEAs to prepare financial data in a form that it could be uploaded to the UPFW.

school financial reporting. Properly categorizing expenditures is crucial for making accurate and meaningful comparisons between LEAs. The combination of improving the clarity of expenditure descriptions in the USOE Chart of Accounts with implementation of a risk-based assessment would likely improve the reliability of LEA financial reporting.

Financial Reports Could Be Used to Identify Key Student Outcome Indicators

Financial reports do not implicitly provide specific information that would enable stakeholders to identify relationships between funds spent on instruction and education outcomes. Detailed reports could help the State Board and individual LEAs to more closely align financial resources with values and strategic goals. Such reports could include the cost to provide specific courses and potential returns on the investments of additional resources. It does not appear that the State Board nor any LEA track and use the actual cost of providing specific courses to students to guide decisions.

The USOE and LEAs currently track the use of funds for certain strategic initiatives that are reported in the APR. For example, the APR shows the use of funds dedicated for the Class-Size Reduction and K-3 Reading initiatives; however, the APR does not tie the use of initiative funds to strategic outcomes and values.

The Student Assessment of Growth and Excellence (SAGE) is one test used by the State Board to determine student proficiency in three areas: English language arts, mathematics, and science. Proficiency exams are administered to students in grades three through 11 to determine each student's aptitude in the three areas. SAGE test scores may also be grouped together and used to determine the overall aptitude of students with the same teacher.

Though the State Board emphasizes SAGE test results, it does not know the statewide resources and costs to educate students in each area. For example, the State Board does not know the cost to provide math instruction for a specific SAGE test (e.g., Math Grade 6), and could not tie the state's investment in math instruction to a given outcome, let alone the total cost of math instruction in the state.

Absent identifying and tracking specific costs in each area, the State Board cannot necessarily determine the level at which the current resource allocation contributes to overall student success in each strategic area. Comparing costs with outcomes could further enable the State Board and individual LEAs to identify successful cost effective initiatives and focus resources on areas in which the return on investment is most congruent with values and strategic goals.

Similarly, we did not identify any local school boards that use course-specific financial data to evaluate the effectiveness of resources devoted to accomplish strategic goals. Course specific financial data, combined with student outcome data, would enable administrators to conduct informed cost-benefit analyses. Such analyses would enable administrators to better concentrate

education resources in courses and activities that provide evidence-based benefits that align with strategic goals.

Recommendations

1. We recommend that the State Board of Education direct its office to clarify ambiguous definitions in the uniform chart of accounts.
2. We recommend that the State Board of Education direct its office to identify and train local education agencies that require greater scrutiny and/or additional training to increase the accuracy of financial reporting.
3. We recommend that the State Board of Education and the school boards for local education agencies regularly use detailed financial reports to guide strategic objectives.
4. We recommend that the State Board of Education, its office, and the school boards for local education agencies use financial data, in conjunction with student outcome data, to perform comparisons of activities and courses among local education agencies.

Page Left Blank Intentionally

Finding 2 Adopting Certain Practices Could Free Up Resources for Other Priorities

Conducting regular cost comparisons among similar local education agencies (LEAs) could help the State Board of Education (State Board) to identify practices correlated with lower costs. We identified ten practices that are correlated with lower costs per student in administration, operations and maintenance (O&M), and food services. School districts that claim to follow certain practices in a given category have lower costs per student in that category than their peers.³¹ The Utah State Office of Education (USOE) could conduct a similar comparison for charter schools.

The State Board should regularly identify practices correlated with lower costs and train LEA boards and management on the potential to reduce costs through greater efficiency. While it may be difficult for some smaller school districts to realize the same economies of scale as larger school districts, regular comparisons among school districts with similar characteristics could help the State Board identify efficient practices for all school districts.

Comparing School District Practices to Operating Expenses Highlights Opportunities for Cost Savings

The State Board should take a greater role in encouraging LEAs to adopt practices correlated with lower costs and greater student outcomes. The State Board is responsible for the establishment and enforcement of efficiency metrics for LEAs throughout the state.³² In deference to local control, individual LEAs determine how to allocate funding and which operating practices they will follow. Neither the State Board nor its office, the USOE, regularly identify best practices or monitor LEA adoption of efficient practices.

To assess how individual school districts operate, we surveyed the business administrators for all 41 school districts. That survey collected information on district adoption of a variety of operational practices in areas including:

- Administration
- Operations and maintenance
- Food service

In order to identify practices associated with lower costs, we compared each school district within a peer group that consisted of school districts with similar characteristics.³³ Combining expense

³¹ The present study was limited to school district practices. Charter schools were not included in this analysis.

³² See Utah Code § 53A-1-402.

³³ See Appendix B for peer groups.

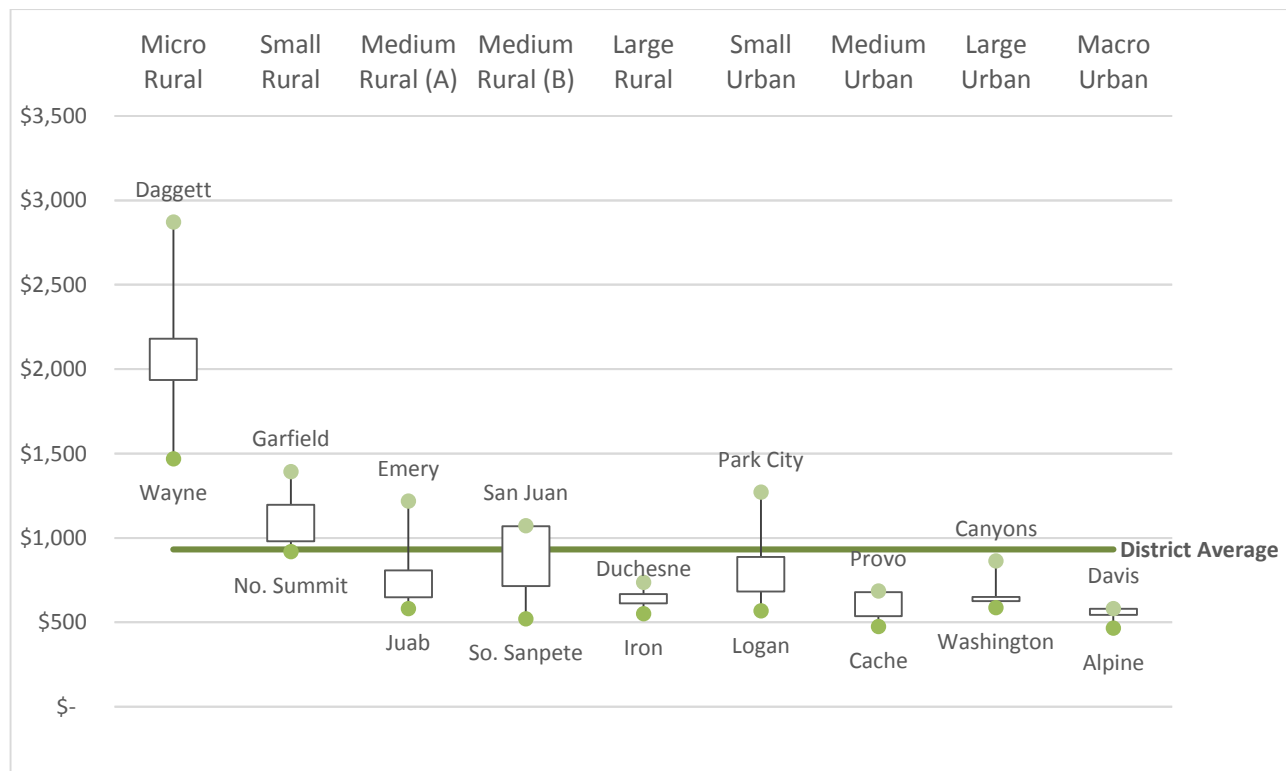
profiles within each peer group with survey results allowed for meaningful comparisons to identify practices correlated with lower costs.

Although each school district has unique circumstances and challenges that affect their individual costs, the State Board should take a more active role in regularly identifying potentially cost-saving practices.

Five Administrative Practices are Correlated With Reduced School District Costs per Student

Five of the 10 administrative practices surveyed correspond with reduced administrative dollars per student.³⁴ School districts that followed these practices correlated with lower costs in school and district administration, as well as how central services were managed, spent less per student than other school districts. Figure 2.1 shows the wide range of administrative dollars spent per student among school districts.

Figure 2.1 Administrative Dollars per Student by Peer Group



Source: OSA analysis of Annual Financial Reports

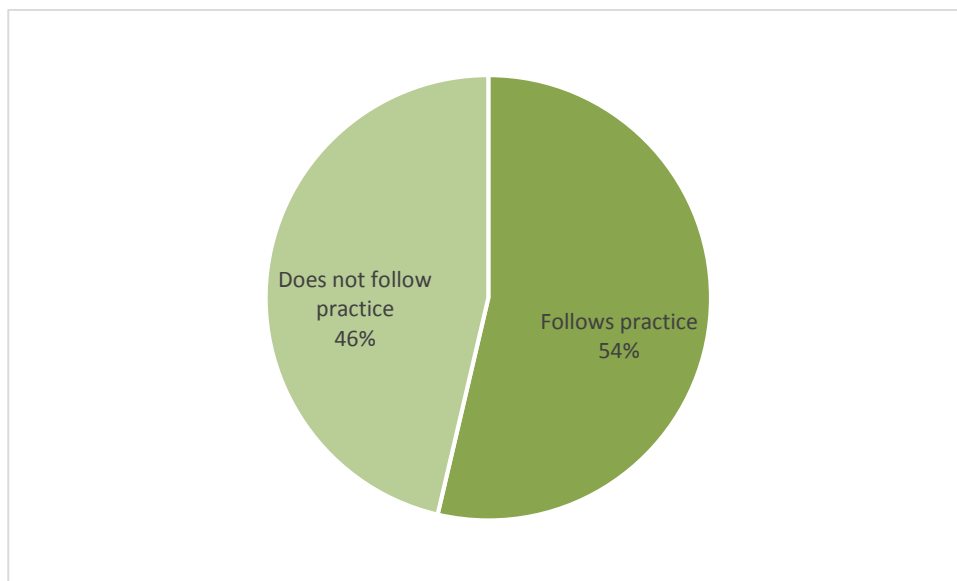
³⁴ For purposes of this performance audit, administrative costs include total school district administrative costs, central administrative costs, and school administrative costs averaged across fiscal years 2012 through 2014.

Daggett School District spent the most on administration per student at \$2,873 per student – about 18 percent of its general fund – while Alpine School District spent the least at \$467 per student – approximately nine percent of its general fund. While larger school districts can generally realize greater economies of scale due to serving more students, meaningful comparisons can still be made within individual peer groups.

The relationship between each of the five practices and the associated cost per student persists even when accounting for the impact student population size has on administrative dollars per student. Controlling for district size, these five practices are correlated with lower costs per student: (1) using digital communication, (2) using administrative staffing formulas, (3) tracking dollars per student, (4) monitoring administrative full-time employees (FTEs) per student, and (5) bulk warehousing.

School Districts Whose Primary Method of Communication with Parents/Guardians Is Digital, Spent an Average of \$382 Less per Student. Nearly half of the 41 school districts, as seen in Figure 2.2, primarily communicate with parents/guardians through telephone conversations or mail rather than email, school websites, and/or social media.

Figure 2.2 Percent of School Districts that Primarily Use Digital Communication

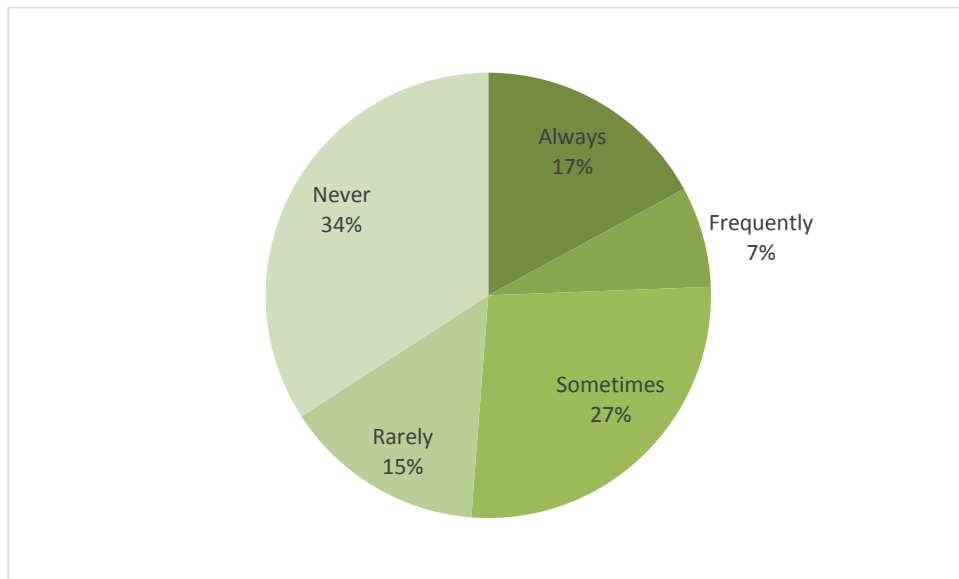


Source: OSA Business Administrator Survey

Increasing the use of digital communication with parents/guardians rather than paper or in-person communication likely reduces staff time in addition to lowering the cost of supplies and delivery costs and can accelerate communication. Four of the 19 school districts that claim not to follow this practice serve urban populations along the Wasatch Front. The remaining 15 school districts that claim not to follow this practice serve rural populations.

School Districts that Frequently Use Administrative Staffing Formulas Spent \$148 per Student Less than School Districts that do not Commonly Use Such Methods. Almost half of the state’s school districts reported that they rarely or never use administrative staffing formulas, as depicted in Figure 2.3. Administrative staffing formulas assist school districts in determining the number of administrative staff the school district should employ based on the number of students in the district.

Figure 2.3 **Frequency at which School Districts Follow Administrative Staffing Formulas**



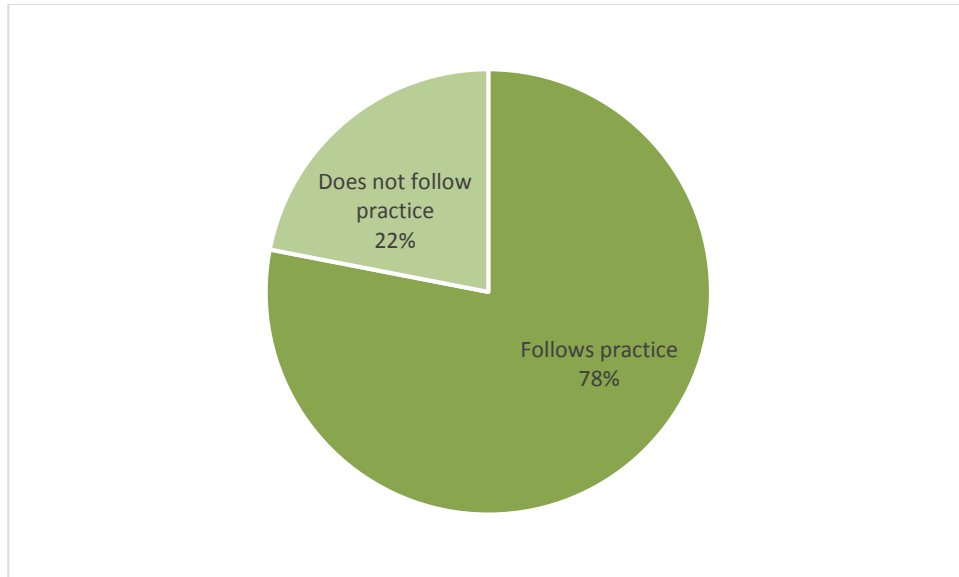
Source: OSA Business Administrator Survey

Administrative staffing formulas allow school districts to regularly evaluate the number of administrative staff per student on an ongoing basis and to adjust the staffing accordingly. School districts that do not conduct such an analysis may not fully realize administrative efficiencies used by their peers.

Business administrators from the four largest school districts in the state claim to never or rarely use administrative staffing formulas. Only 20 percent of students are served by a school district who claims to always follow this practice which is correlated with lower costs. Some school districts that monitor administrative staffing levels do not necessarily use administrative staffing formulas to set administrative staffing levels.

School Districts that Track Administrative Costs per Student Spent \$482 Less per Student than School Districts that do not Track Those Costs. While most school districts claim to follow this practice, as shown in Figure 2.4, nine school districts do not track the amount spent on administrative costs per student.

Figure 2.4 Percent of School Districts that Track Administrative Costs per Pupil



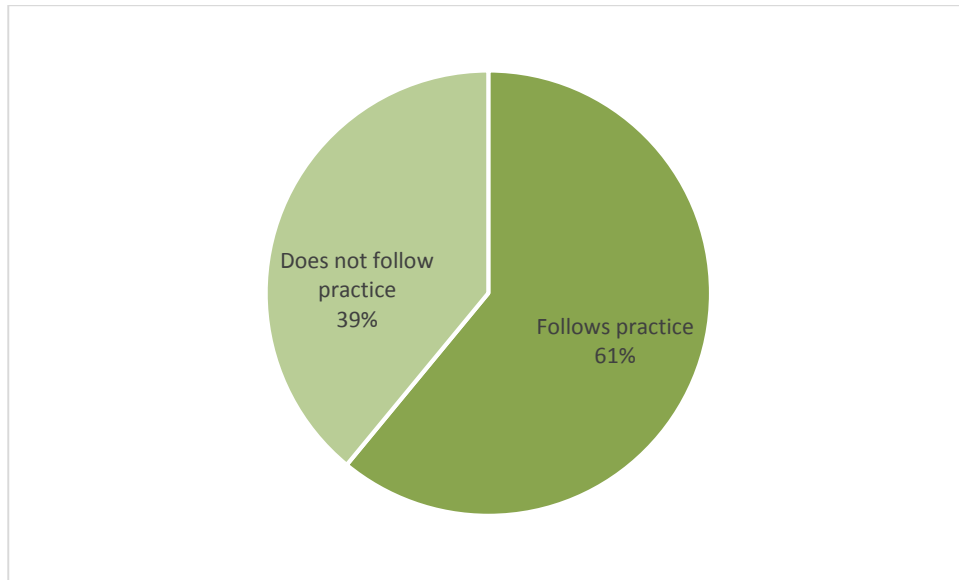
Source: OSA Business Administrator Survey

Tracking administrative costs per student is correlated with lower administrative costs per student. While most large urban school districts claim to track administrative costs per student, all school districts could benefit by greater awareness of the amount spent per student compared to their peers. Local boards of school districts that do not track this information should consider doing so in the future.

Monitoring Administrative FTEs per Pupil Is Correlated with Lower District Administrative Costs.

The 25 school districts that claim to adopt this practice spent \$402 less per student on annual administrative costs. Figure 2.5 shows the percent of school districts that claim follow this practice as well as school districts that do not claim to track administrative FTEs per student.

Figure 2.5 Percent of School Districts that Track Administrative FTEs per Pupil



Source: OSA Business Administrative Survey

Monitoring the number of administrative FTEs per student may help some school districts lower administrative costs. Additionally, comparing such metrics with similar school districts could help school districts identify efficient practices. Two of the four large urban districts are among the 16 school districts that claim not to follow this practice correlated with lower costs per student.

School Districts that Purchase in Bulk Spent an Average of \$312 Less per Student than School Districts that Make Smaller Purchases. More than 34 percent of school districts claim to not use bulk purchasing and warehousing of supplies as their primary means of procurement, as shown in Figure 2.6, even though it is correlated with lower costs.

Figure 2.6 **Percent of School Districts that Use Bulk Warehousing**



Source: OSA Business Administrator Survey

Ordering in bulk and warehousing supplies enables some school districts to take advantage of lower prices when ordering supplies, and likely explains why school districts that followed the practice spent less per student than school districts that do not follow a similar practice. It appears that some smaller districts may not have the same capabilities to warehouse supplies as larger school districts, which is a likely reason that most of the 14 school districts that claim not to follow this practice have smaller enrollment and/or serve rural populations. Only two of the 14 school districts that do not claim to follow this practice serve more than 10,000 students.

School districts that claim not to adopt any of these administrative practices spent, on average, almost 221 percent more per student than the school district that claims to follow all five practices.

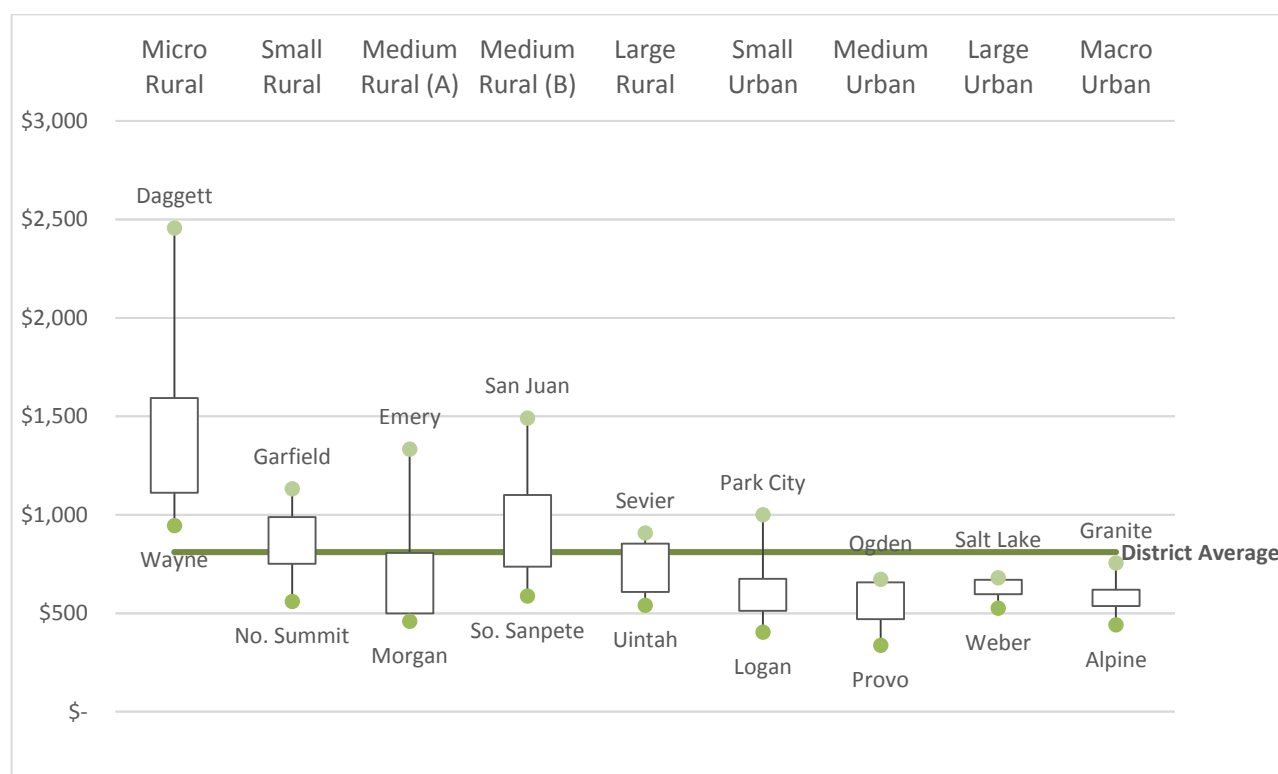
While it may not be entirely possible for some smaller school districts to realize the same administrative economies of scale as larger school districts, the differences within their peer groups³⁵ provide meaningful comparisons that demonstrate potential areas to reduce costs for all school districts. Local school boards that oversee school districts that do not follow administrative practices correlated with lower cost per student should consider the benefits of more adopting practices correlated with lower costs per student in other school districts.

³⁵ See Appendix B for peer groups.

Two O&M Practices Are Correlated with Reduced School District Costs per Student

Two of the eight O&M practices surveyed are correlated with lower O&M cost per student.³⁶ Similar to administrative practice costs, the relationship between each correlated practice and costs persists even when accounting for the impact student population size has on O&M dollars per student. These two practices are correlated with lower O&M costs, after controlling for school district size: (1) conducting regular energy audits and (2) tracking building capacity utilization. Figure 2.7 shows the range in costs that districts spent per student in this area.

Figure 2.7 O&M Costs Per Student by District Peer Groups



Source: OSA analysis of Annual Financial Reports

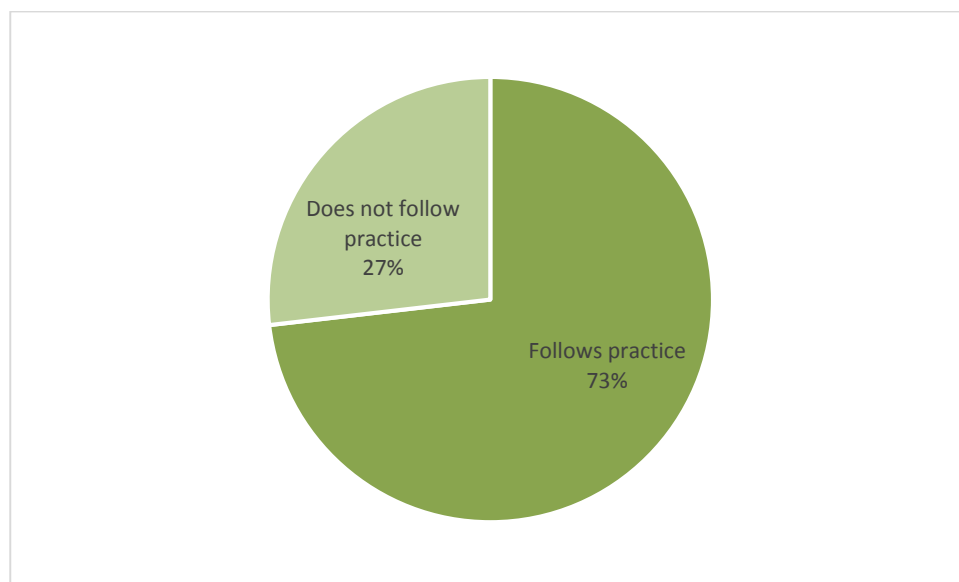
Daggett School District spent the most per student on O&M at \$2,456, or 15 percent of the district's general fund. Provo School District spent the least in this area at \$338 per pupil, or about 6 percent of the school district's general fund.

Regularly Conducting Energy Audits is Correlated with Lower O&M Costs Among School Districts. On average, school districts that claim to regularly conduct energy audits spent \$254 per student less on O&M than school districts that do not claim to conduct energy audits. Conducting

³⁶ Costs and enrollment were averaged over a three-year period from FY2012-FY2014.

energy audits helps school districts identify areas where buildings could realize greater efficiency and potentially reduce costs. Local school boards for the 11 school districts that claim not to conduct such audits should consider the benefits demonstrated by the 30 school districts that claim to conduct energy audits. The majority of school districts that do not conduct energy audits serve rural populations.

Figure 2.8 **Percent of School Districts that Conduct Energy Audits**

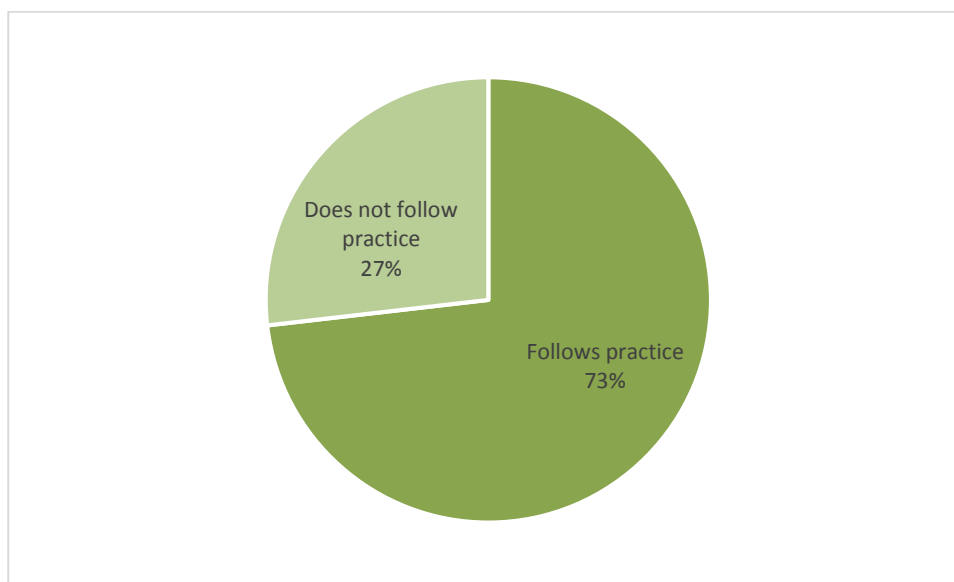


Source: OSA Business Administrative Survey

Local school boards for LEAs that do not currently claim to conduct energy audits to identify potential cost savings should determine if adopting this practice would lower their O&M cost per student.

School Districts that do not Track Building Utilization Could Potentially Reduce Costs by Adopting the Practice. The 30 school districts that claim to track building utilization spent an average of \$234 less per student on O&M than the 11 school districts that claim not to follow this practice.

Figure 2.9 Percent of School Districts that Track Building Capacity Utilization



Source: OSA Business Administrator Survey

Two of the four large urban school districts are among the 11 school districts that claim not to follow this practice correlated with lower costs per student.

School districts that claim not to follow either of these practices correlated with lower costs, reported higher O&M costs than school districts that claim to follow these practices. The five school districts that claim not to follow either practice, on average, spent almost twice as much per student on O&M than school districts that claim to follow both practices.

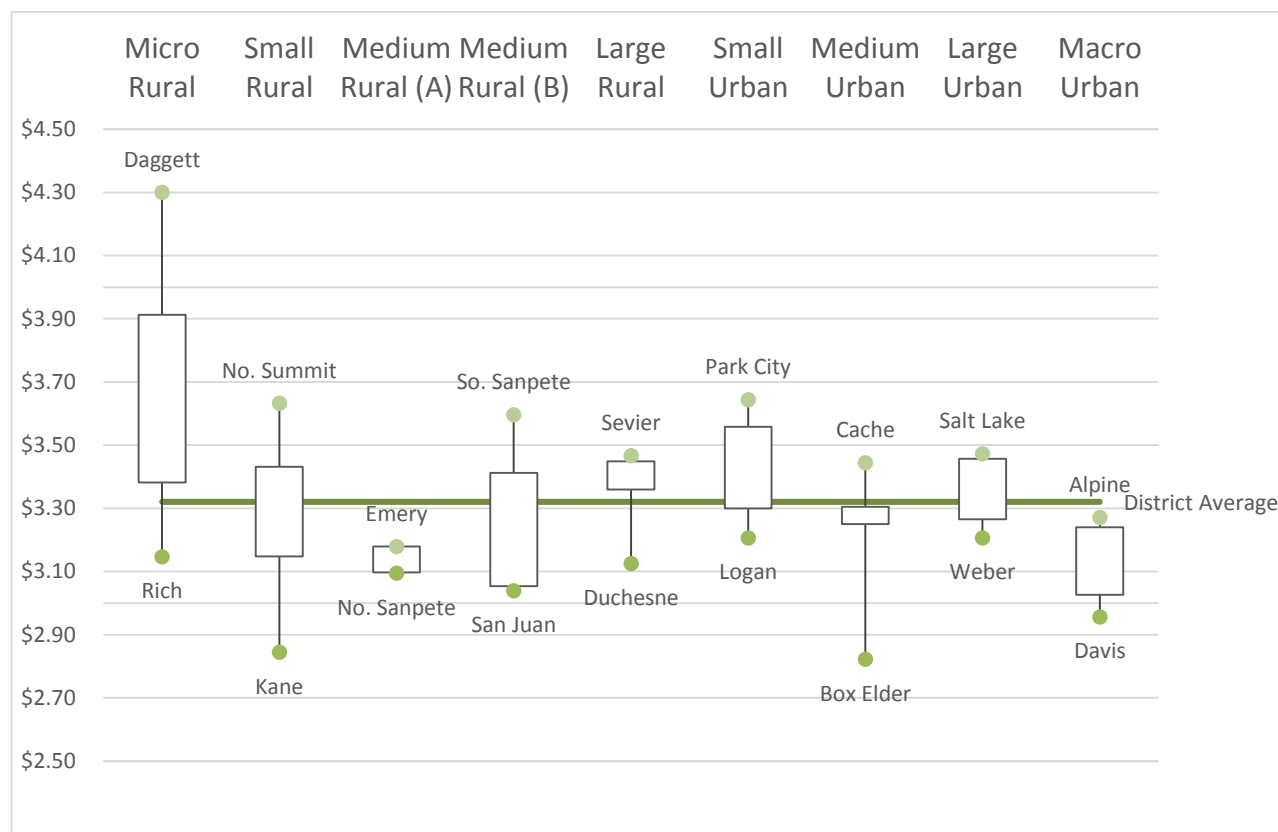
By comparison, the 24 school districts that claim to follow both of these potentially cost saving practices spent an average of \$718 per student on O&M. The State Board should educate and follow up with local boards of school districts that do not follow O&M practices correlated with lower costs.

Three Food Service Practices are Correlated With Reduced School District Costs per Student

Three of the 13 food service practices surveyed are correlated with reduced food service costs.³⁷ Unlike administrative and O&M practices, student population size was not a factor on dollars spent per meal. Daggett School District spent the most per meal, at \$4.30, while Box Elder School District spent the least per meal, at \$2.82. Figure 2.10 shows the range in costs that districts spent per meal.

³⁷ Calculation of food service costs per meal included the average annual cost to provide the meal divided by the average annual meals served during fiscal years 2012 to 2014.

Figure 2.10 Food Service Costs Per Student by District Peer Groups

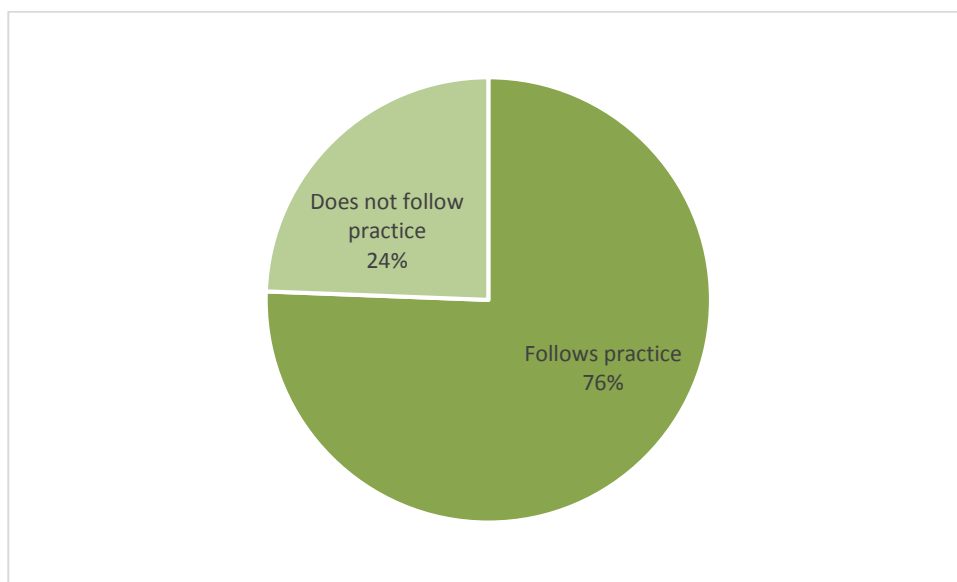


OSA analysis of USOE AFR data FY2012-FY2014

The following three correlations between adopting the practice and lower costs include tracking: (1) the ratio of food service revenues to expenditures, (2) dollars per meal served, and (3) meals per labor hour.

School Districts that Track Food Service Revenues to Expenditures Spent Less on Food Services per Student. On average, school districts that claim to track the ratio of revenues to expenditures spent nine percent less per meal than school districts that claim not to track the ratio of revenues to expenditures. Most school districts (31) claim to have adopted this practice and report lower costs per meal than school districts that claim to have not adopted this practice.

Figure 2.11 Percent of School Districts that Track Revenues to Expenditures



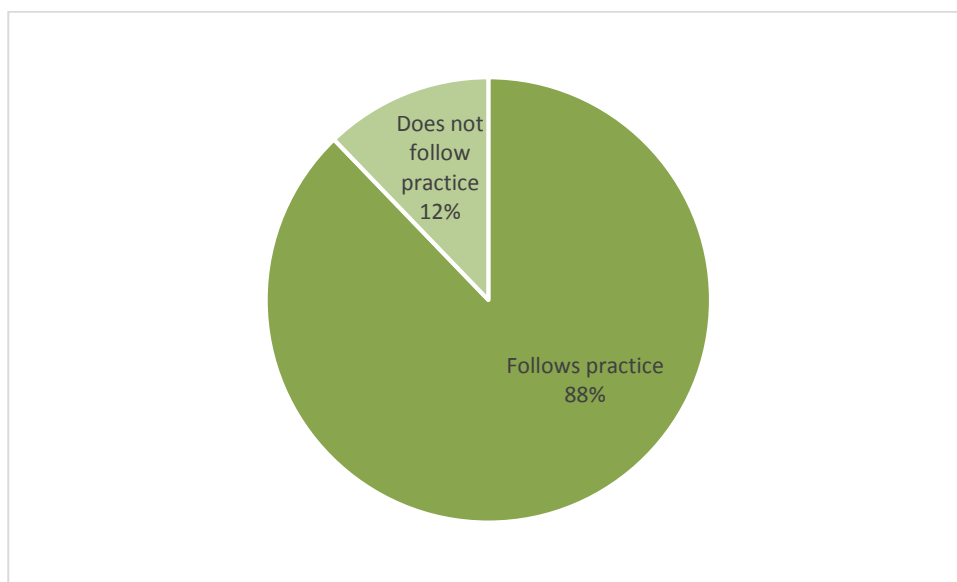
Source: OSA Business Administrator Survey

Adopting this practice could help reduce costs for the 10 school districts that do not currently track food service revenues and expenditures. Two of these 10 school districts are among the largest in student population and each has the highest cost per meal in their respective peer group.

Tracking the Cost per Meal Served Is Correlated with Lower Food Service Cost per Student.

School districts that claim to track the cost per meal spent nine percent less per meal than the five school districts that claim not to track this metric. On average, school districts that track dollars spent per meal spent \$0.31 per meal less on food services than school districts that do not track dollars spent per meal.

Figure 2.12 Percent of School Districts that Track Dollars per Meal Served

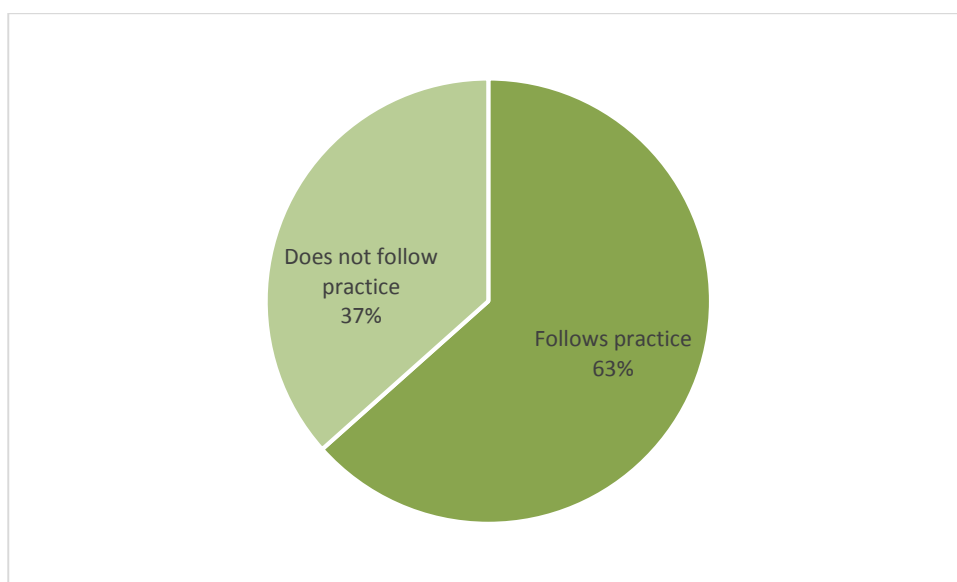


Source: OSA Business Administrator Survey

By tracking the cost per meal, school districts may identify areas for greater efficiency that could potentially reduce food service costs. Smaller rural school districts were the only school districts that claim not to follow this practice.

School Districts that Claim to Track Meals per Food Service Labor Hour Spent Five Percent Less per Meal. Figure 2.13 shows that more than one-third of the school districts do not claim to follow this practice.

Figure 2.13 Percent of School Districts that Track Meals per Labor Hour



Source: OSA Business Administrator Survey

Four of the largest urban school districts are among the 15 school districts that claim to have not adopted this practice.

School districts that do not claim to have adopted any of these practices correlated with lower food costs pay an average of 17 percent more per meal than school districts that have adopted at least one of the practices. Local school boards of school districts that do not follow food services practices that are correlated with lower costs per meal should consider whether their school district could benefit from adopting these potentially cost-saving practices.

Recommendations

1. We recommend that the State Board of Education and the school boards for all local education agencies regularly identify, compare, and report metrics correlated with lower costs per student to emphasize opportunities that may exist to reduce costs.
2. We recommend that local education agency boards continually identify and implement cost-saving practices.

Finding 3

LEAs Publicly Disclosed Personally Identifiable Student Information on State Transparency Website

Local education agencies (LEAs) publicly disclosed personally identifiable student information in potentially thousands of transactions posted on the Utah Public Finance Website (UPFW).³⁸ Several of these transactions appear to reference highly confidential student information, such as LEA payments for student medical and psychological services. We are concerned about the effect that publicly disclosing personally identifiable information may have on students.

In addition to threatening student privacy, these actions may also violate the *Family Education Rights and Privacy Act* (FERPA), a federal law that establishes requirements for the protection of privacy of both parents and students,³⁹ and state statute which incorporates FERPA.⁴⁰ Additionally, those entries related to special education students may also violate the *Individuals with Disabilities Education Act* (IDEA),⁴¹ which also incorporates and cross-references the privacy protections of FERPA.⁴²

We recommend that these LEAs immediately (1) amend any transactional information that improperly divulged personally identifiable student information, (2) take appropriate measures to prevent any future disclosures, and (3) notify parents or guardians of affected students where appropriate. The State Board of Education (State Board) and its office, the Utah State Office of Education (USOE), could help prevent future improper disclosures by periodically reviewing a sample of publicly disclosed transactions.

LEAs Likely Publicly Disclosed Personally Identifiable Student Information in More than 5,500 Transactions Since 2009

It appears that at least 39 LEAs publicly disclosed transactions that contained personally identifiable student information. Each of these transactions included the name of an individual who was also a student at the LEA at the time the transaction occurred. The student information that was publicly disclosed by these LEAs corresponded to services rendered on behalf of and related to these students, some whom appear to be enrolled in special education.

In an effort to identify the magnitude of the inappropriate disclosures, we matched student first names, last names, LEA, and enrollment dates with similar information posted in the UPFW. Most

³⁸ <http://www.utah.gov/transparency/>

³⁹ 20 U.S.C. § 1232g; 34 C.F.R. § 99.2.

⁴⁰ Utah Code § 53A-13-301

⁴¹ 20 U.S.C. § 1400; 34 C.F.R. § 300.1.

⁴² 34 C.F.R. § 300.611(b).

of the transactions that appear to contain personally identifiable student information fall into the following categories:

- Academic services
- Testing
- Medical services
- Special education
- Legal

Under FERPA, IDEA, and state statute an LEA may not generally disclose personally identifiable information from a student's education records to a third party unless the parent has provided written consent.⁴³ Education records are broadly defined as records that “contain information directly related to a student and maintained by an educational agency, institution, or a party acting for the agency or institution.”⁴⁴ Personally identifiable information is then subsequently defined to include such descriptors as:

[t]he student’s name, . . . social security number, . . . [and] [o]ther information that, alone or in combination, is linked or linkable to a specific student that would allow a reasonable person in the school community, who does not have personal knowledge of the relevant circumstances, to identify the student with reasonable certainty.⁴⁵

Each of the entries identified included the students’ name combined with other information regarding the transaction. Given the sensitive nature of many of these transactions, we question whether parents or guardians provided authorization for disclosure.⁴⁶

Although it is appropriate to track expenses paid on behalf of a particular student, an LEA’s accounting system should be structured such that this type of personally identifiable student information is not included within the upload to the UPFW. It appears that some LEAs have established strong controls to prevent personally identifiable student information from being uploaded to the UPFW, while other LEAs have not. LEAs have an obligation to protect such information.

Additional Disclosures of Personally Identifiable Student Information Are Likely

The prevalence of LEA disclosure of personally identifiable student information is likely greater than the disclosures identified through our tests. The high frequency of common first and last names, as well as truncated names within UPFW transactions, limits the ability to exhaustively

⁴³ 34 C.F.R. § 99.30-31; 34 C.F.R. § 300.622

⁴⁴ 20 U.S.C. § 1232g(a)(4)(A)(i)-(ii).

⁴⁵ 34 C.F.R. § 99.3.

⁴⁶ Specific examples of transactions that appear to include student names will not be cited in this report to protect affected students.

verify these potential disclosures on such a large scale.⁴⁷ Individual LEAs are best situated to confirm whether these additional entries actually contain protected student information, and to remove the prohibited information.⁴⁸

Additionally, other improper disclosures may have gone undetected due to misspelled or abbreviated names. We believe the magnitude of the problem is likely more pervasive than the apparent improper disclosures our analysis was able to detect. LEAs should review transactions submitted to the UPFW to ensure that improperly disclosed personally identifiable student information is removed from all publicly accessible forums.

Improper Disclosures Threaten Student Privacy While Jeopardizing Federal Funding

We are concerned that the public disclosure of personally identifiable student information could adversely impact affected students in the future. Public disclosure of certain personally identifiable student information could lead to employment discrimination, insurance discrimination, or social stigma, especially when such information references payments made for medical treatments or student delinquency records. Additionally, the Federal Government could potentially withhold funding if LEAs fail to follow FERPA and IDEA.⁴⁹

State Board administrative rules require that all public education employees, aides, and volunteers become familiar with federal, state, and local laws regarding the confidentiality of personally identifiable student information, and maintain appropriate confidentiality pursuant to those laws.⁵⁰ Similarly, USOE's special education policy requires that:

[T]he USOE and LEAs take appropriate steps to ensure the protection of the confidentiality of any personally identifiable data, information, and records collected or maintained by the USOE and LEAs.⁵¹

Though the LEAs likely publicly disclosed the personally identifiable student information, the State Board, through its office, should take steps to help ensure that LEAs are in compliance with both FERPA and IDEA.⁵² Due to the sensitive nature of this information, we believe that greater care should be taken by all LEAs in protecting students' personally identifiable information.

⁴⁷ Approximately 27 million UPFW transactions were reviewed.

⁴⁸ We gave a list of all transactions that appear to disclose personally identifiable to the USOE to distribute to the disclosing LEA one month prior to publicly releasing the audit report.

⁴⁹ 34 C.F.R. § 99.67; 34 C.F.R. § 300.604-05.

⁵⁰ Utah Admin. Code R277-487-3-C.

⁵¹ USOE Special Education Rules IV.X. CONFIDENTIALITY.

⁵² Utah Admin. Code R277-487-3-A.

Recommendations

1. We recommend that local education agencies remove improperly disclosed personally identifiable student information on the Utah Public Finance Website, avoid publically disclosing personally identifiable student information, and educate employees regarding the proper handling of sensitive student information.
2. We recommend that local education agencies that improperly disclosed personally identifiable student information notify the students' parents or guardians, as appropriate.
3. We recommend that local education agencies that disclosed personally identifiable student information strengthen controls in their accounting systems to prevent improper disclosures in the future.
4. We recommend that the State Board of Education instruct its office to occasionally sample and review local education agency submissions to the Utah Public Finance Website to help ensure personally identifiable information is not publicly accessible.

Appendix A **Audit Scope, Methodology, And Limitations**

A Performance Audit of Financial Reporting in Public Education reviewed the accuracy, transparency, and use of local education agency (LEA) financial reporting. The initial audit scope was an evaluation of:

- Where does public education funding go?
- How effectively was funding used by public education?

The scope was reduced during audit field work as we were unable to (1) track classroom-specific costs for most LEAs, and (2) fully analyze student outcomes with classroom spending. Additional ongoing audit work continues to attempt to answer these two initial fundamental audit questions. Field work – which occurred from May 2015 to August 2015 – included the following:

- Reconciliation of transactions reported on the Utah Public Finance Website (UPFW) to LEA annual financial reports.
- Analysis of individual LEA costs.
- Comparison of categorized LEA costs with similar LEAs.
- Administration of a survey to 41 school district business administrators.
- Comparison of LEA transactions reported to the UPFW with identifying student information.

During the course of audit field work, we identified several transactions on the UPFW that appeared to contain student names. Testing was then expanded to determine (1) if personally identifiable student information was publicly disclosed, and (2) the extent of possible reporting errors.

Access to protected student information was only granted to the three individuals who analyzed that data. No personally identifiable student information was retained in the audit working papers or viewed by any other individual, in accordance with the agreement with the State Board of Education, and as allowed by the *Family Education Rights and Privacy Act*.⁵³ We recognize the State Office of Education's immediate direction to LEAs to remove improper disclosures that contained personally identifiable student information after we notified staff of the concerns.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁵³ 34 CFR 99.31 and 34 CFR 99.35.

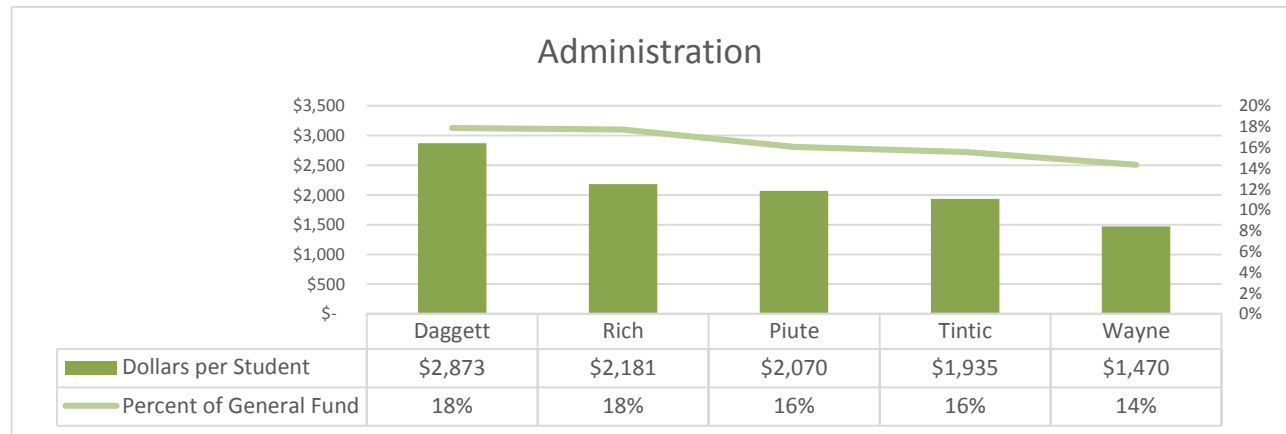
Page Left Blank Intentionally

Appendix B Peer Group Profiles

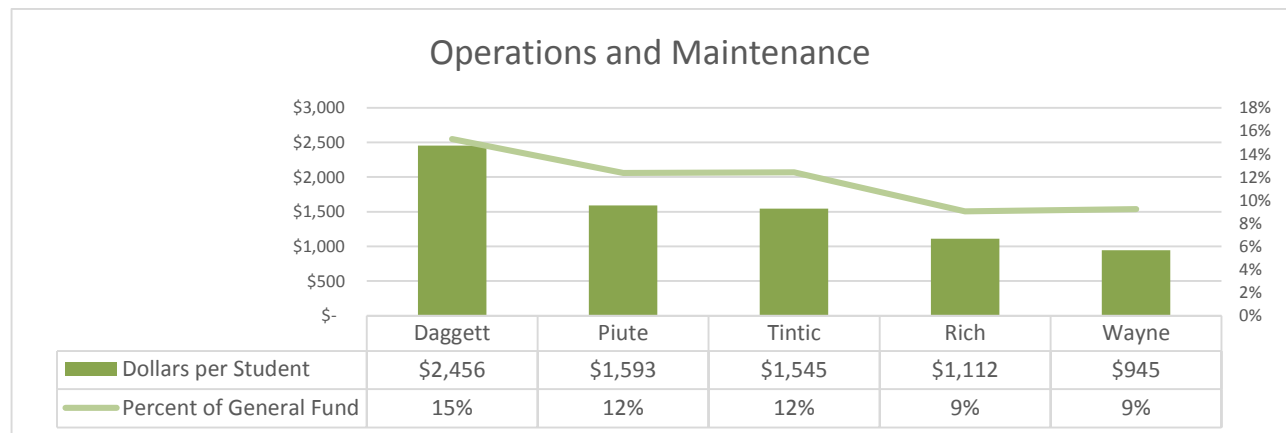
School District Peer Group Methodology: We assigned all 41 school districts into one of nine peer groups based on student population and whether the district primarily serves a rural or urban population. Separations between each peer group were set at the natural gaps in student population sizes so that each peer group would consist of four to six school districts. Peer groups for this analysis include the following:

- **Micro Rural District (1-500 Students)**
 - Daggett School District
 - Piute School District
 - Rich School District
 - Tintic School District
 - Wayne School District
- **Small Rural District (501-2,000 Students)**
 - Beaver School District
 - Garfield School District
 - Grand School District
 - Kane School District
 - North Summit School District
 - South Summit School District
- **Medium Rural District (A) (2,001-3,000 Students)**
 - Emery School District
 - Juab School District
 - Morgan School District
 - North Sanpete School District
- **Medium Rural District (B) (3,001-4,000 Students)**
 - Carbon School District
 - Millard School District
 - San Juan School District
 - South Sanpete School District
- **Large Rural District (4,001-10,000 Students)**
 - Duchesne School District
 - Iron School District
 - Sevier School District
 - Uintah School District
- **Small Urban District (4,001-10,000 Students)**
 - Park City School District
 - Logan School District
 - Murray School District
 - Wasatch School District
- **Medium Urban District (10,001-20,000 Students)**
 - Box Elder School District
 - Cache School District
 - Ogden School District
 - Provo School District
 - Tooele School District
- **Large Urban District (20,001-50,000 Students)**
 - Canyons School District
 - Nebo School District
 - Salt Lake School District
 - Washington School District
 - Weber School District
- **Macro Urban District (50,001-100,000 Students)**
 - Alpine School District
 - Davis School District
 - Granite School District
 - Jordan School District

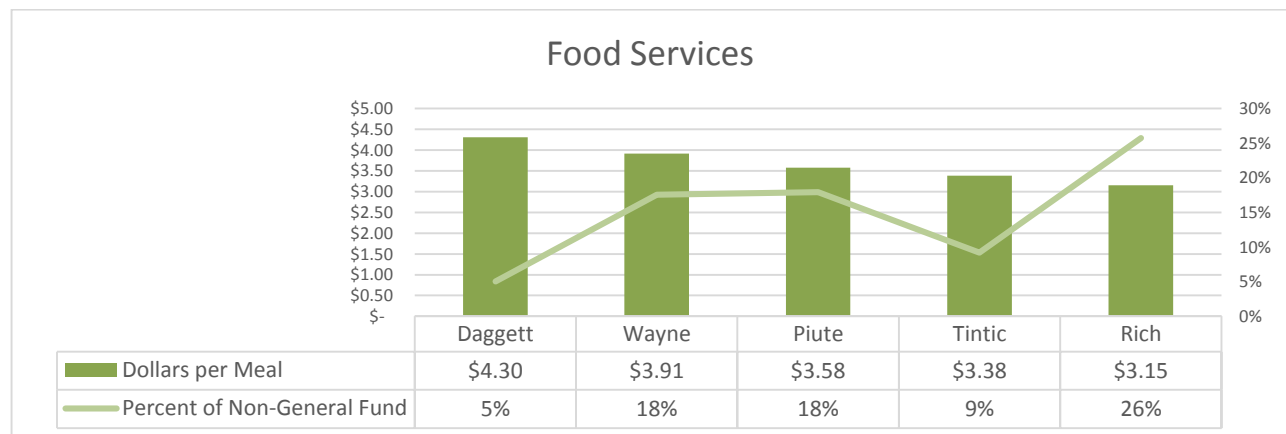
Micro Rural



OSA analysis of USOE AFR data FY2012-FY2014



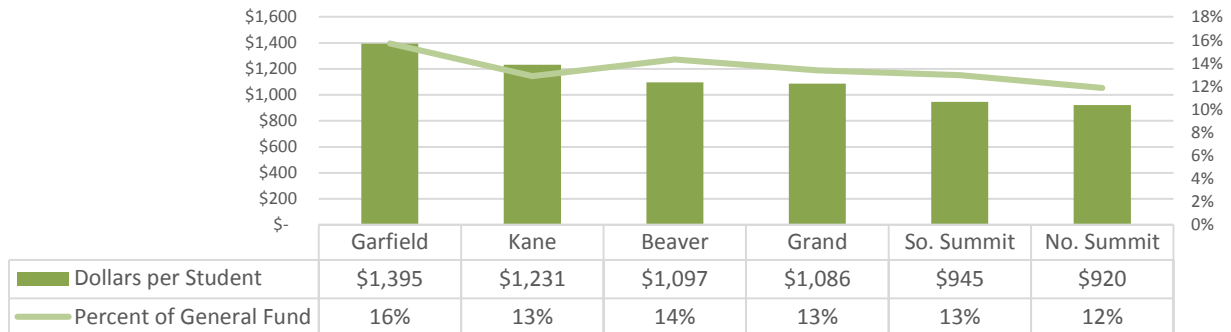
OSA analysis of USOE AFR data FY2012-FY2014



OSA analysis of USOE AFR data FY2012-FY2014

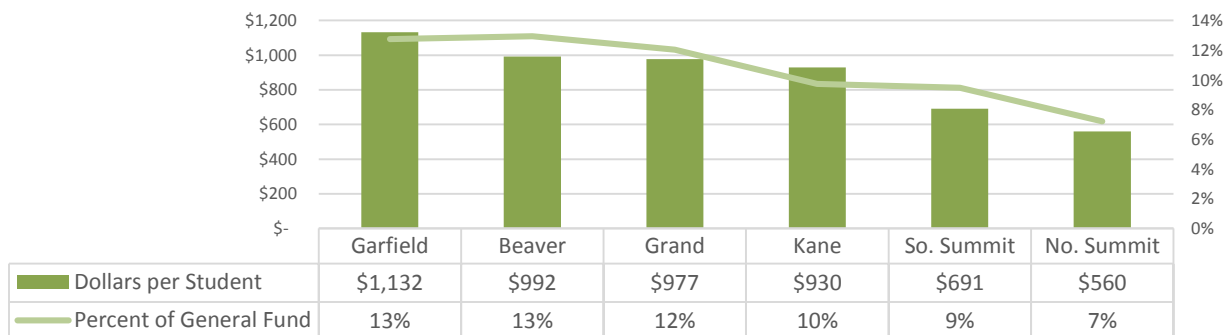
Small Rural

Administration



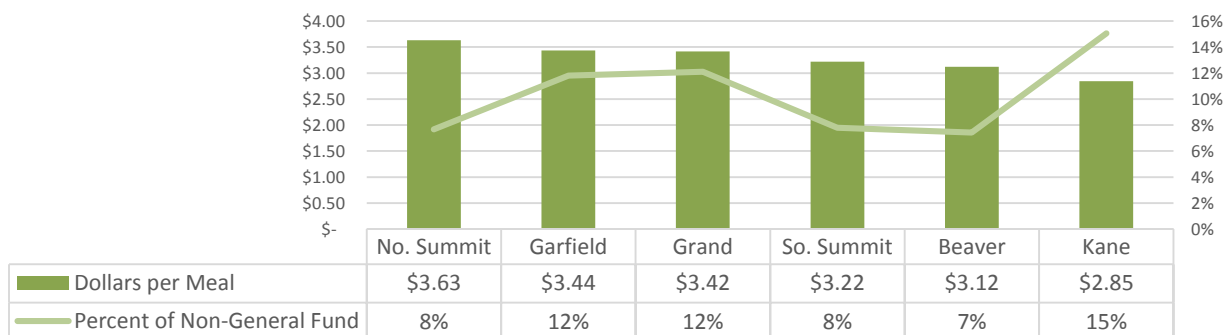
OSA analysis of USOE AFR data FY2012-FY2014

Operations and Maintenance



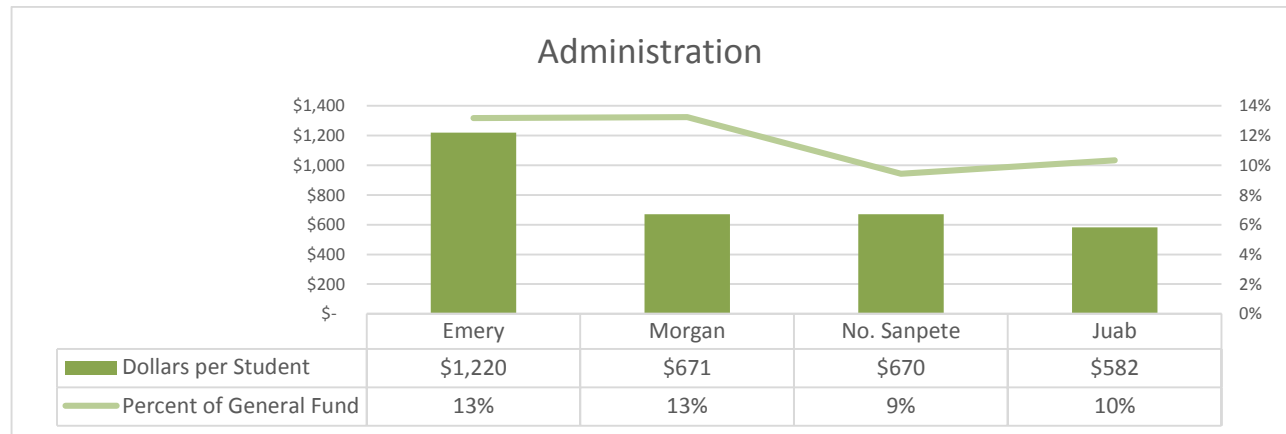
OSA analysis of USOE AFR data FY2012-FY2014

Food Services

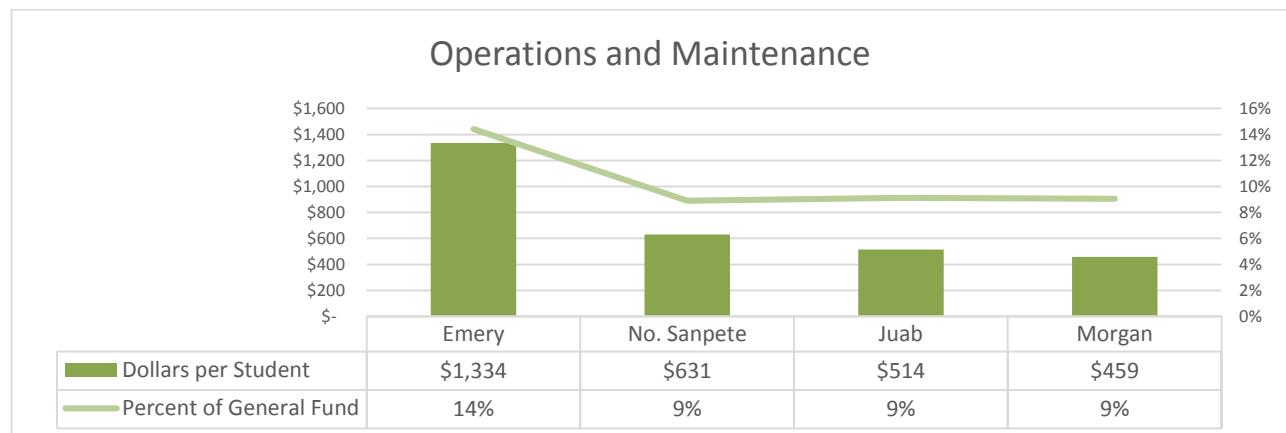


OSA analysis of USOE AFR data FY2012-FY2014

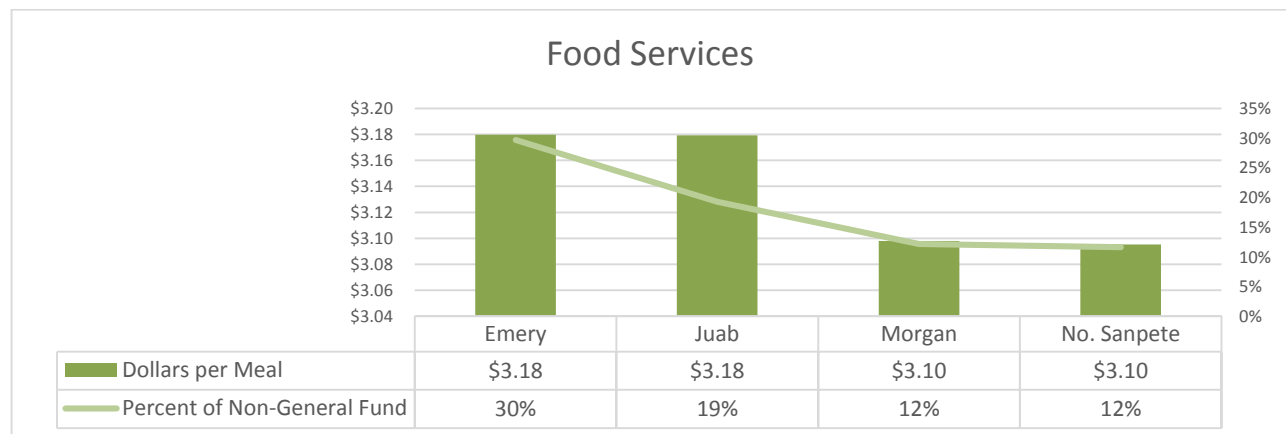
Medium Rural (A)



OSA analysis of USOE AFR data FY2012-FY2014

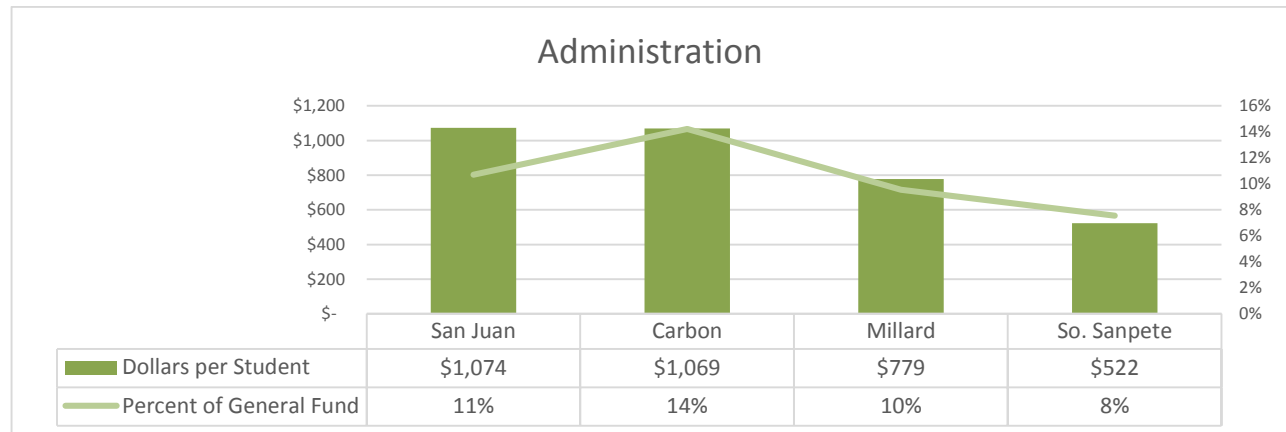


OSA analysis of USOE AFR data FY2012-FY2014

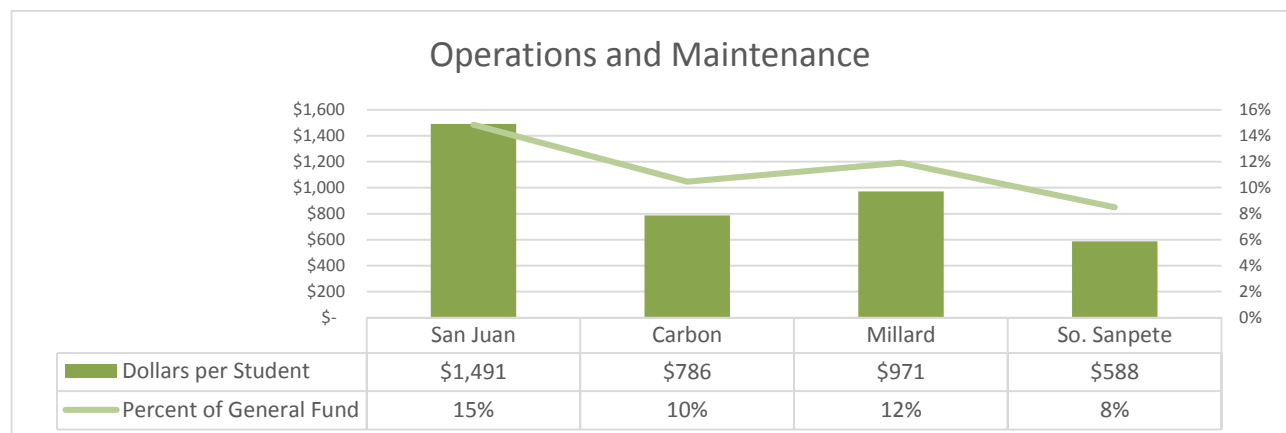


OSA analysis of USOE AFR data FY2012-FY2014

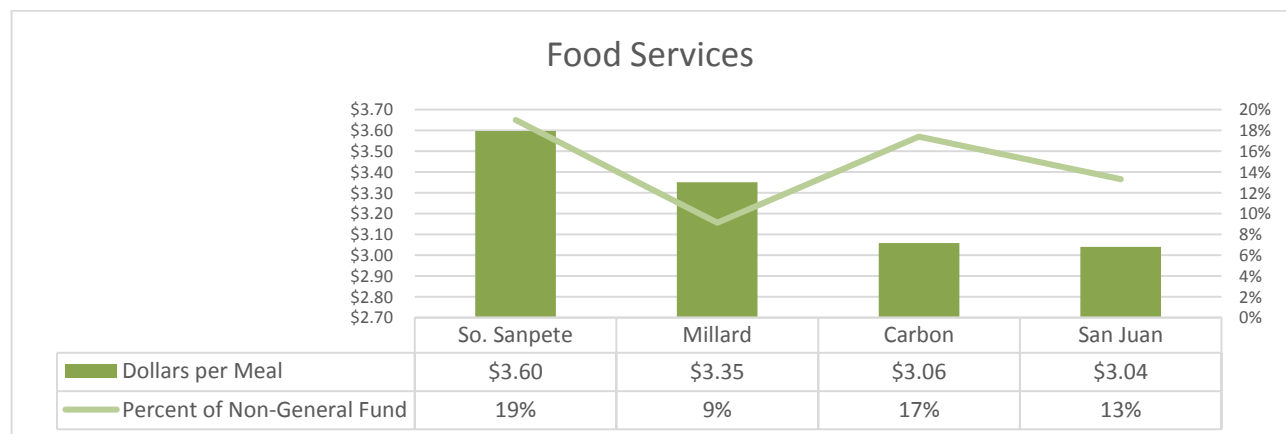
Medium Rural (B)



OSA analysis of USOE AFR data FY2012-FY2014

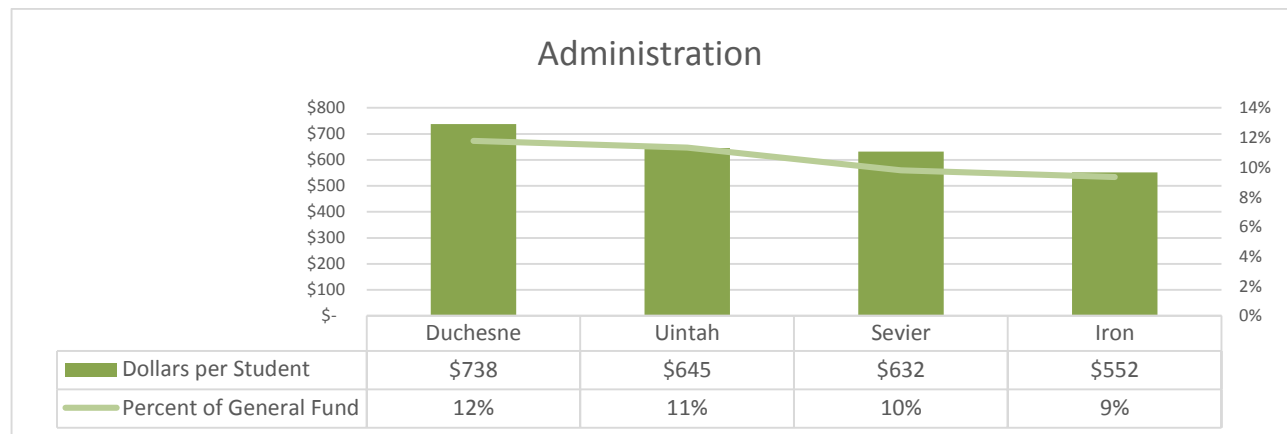


OSA analysis of USOE AFR data FY2012-FY2014

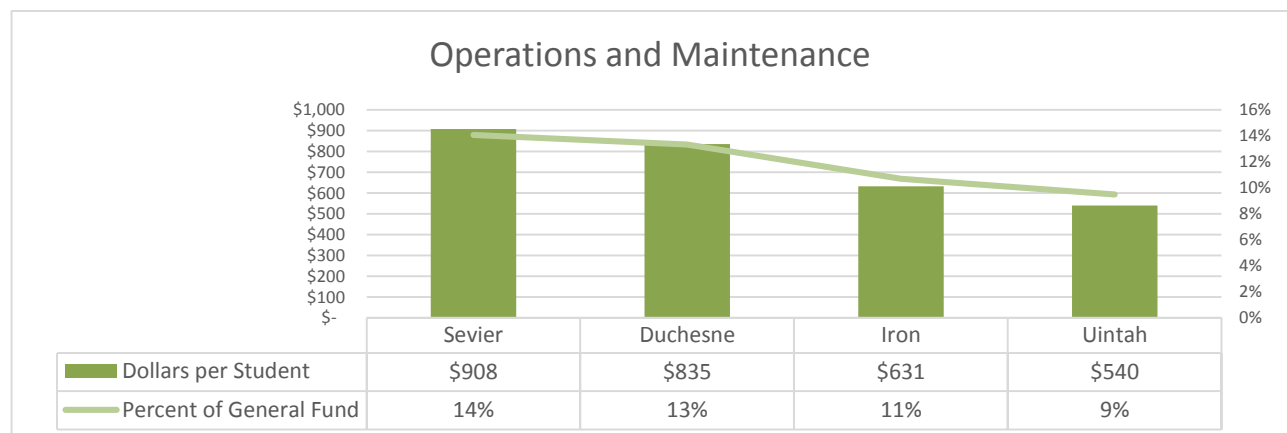


OSA analysis of USOE AFR data FY2012-FY2014

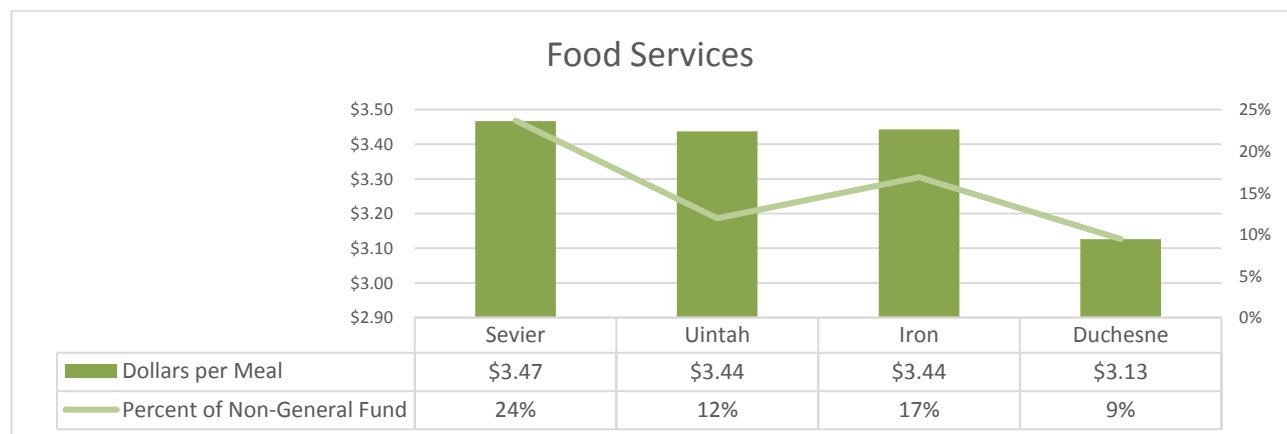
Large Rural



OSA analysis of USOE AFR data FY2012-FY2014

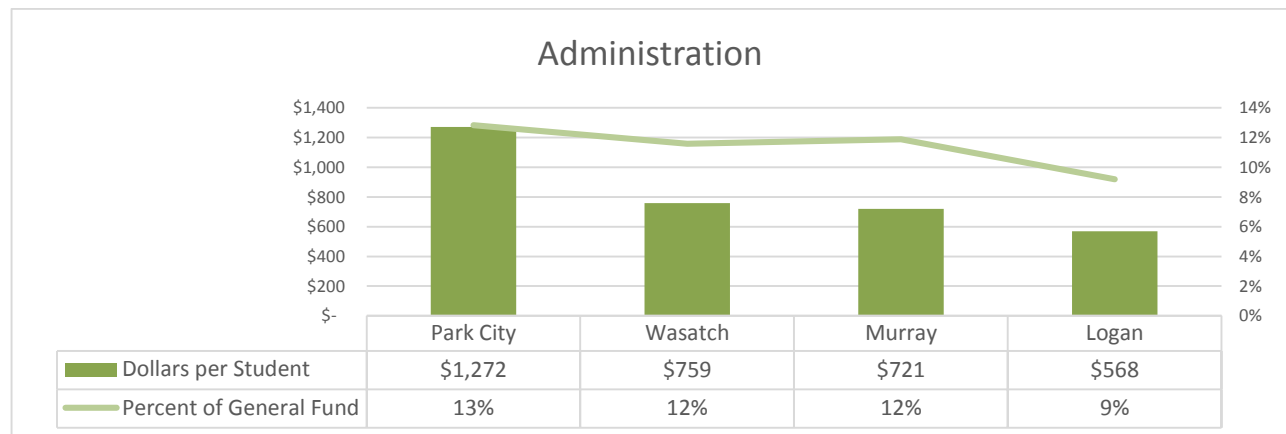


OSA analysis of USOE AFR data FY2012-FY2014

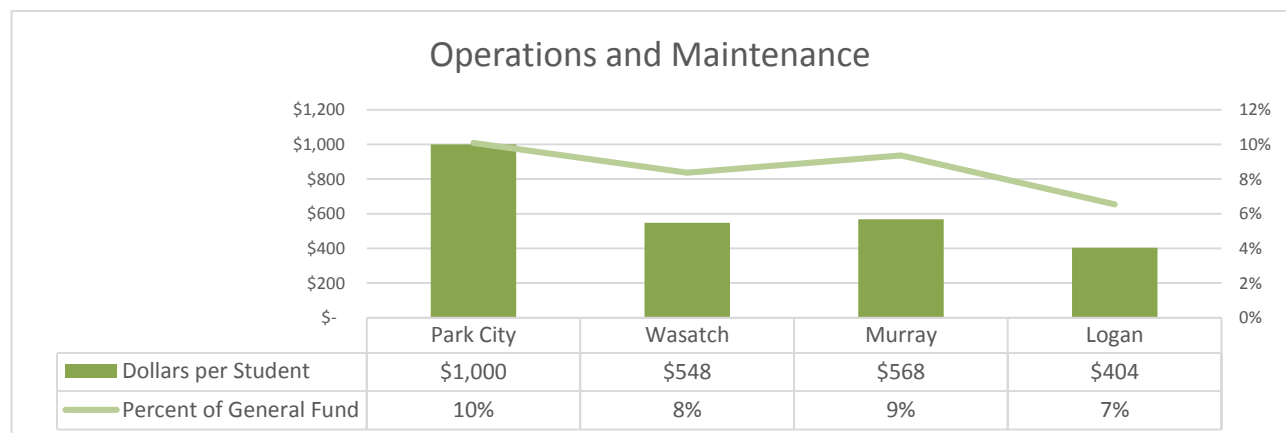


OSA analysis of USOE AFR data FY2012-FY2014

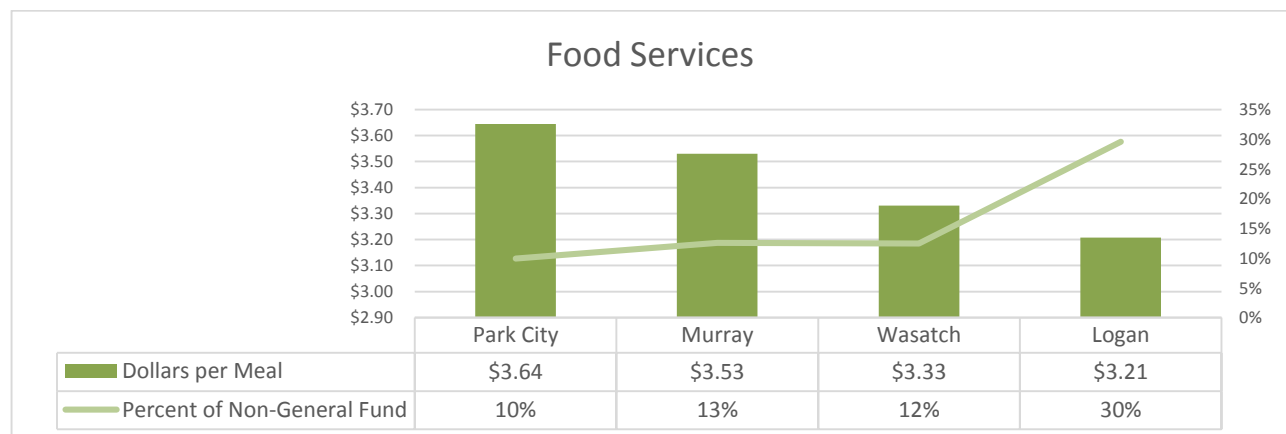
Small Urban



OSA analysis of USOE AFR data FY2012-FY2014

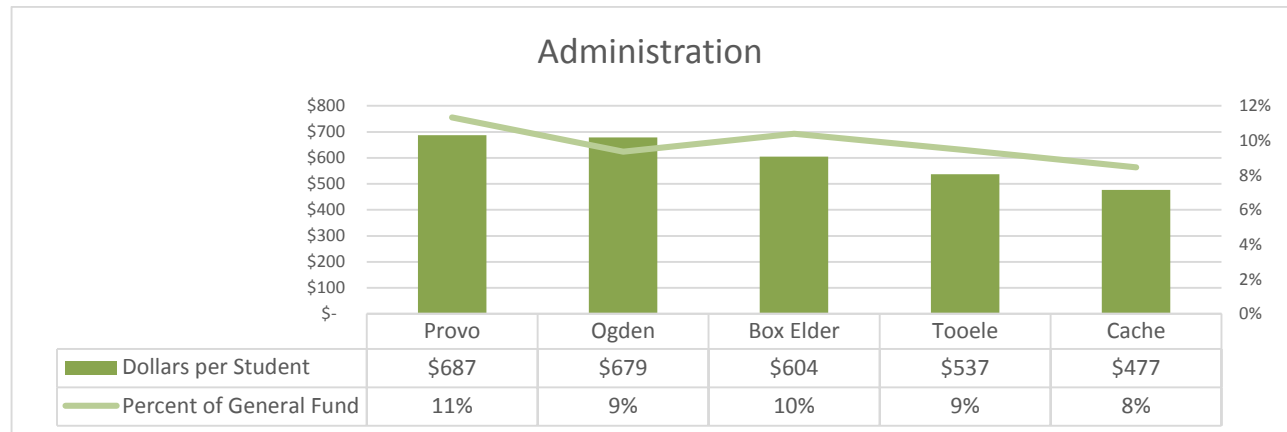


OSA analysis of USOE AFR data FY2012-FY2014

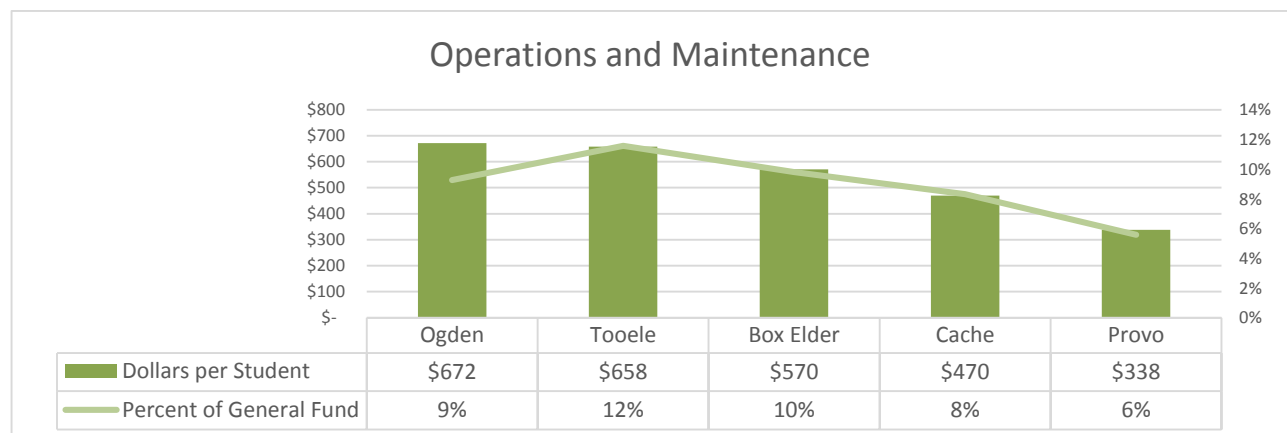


OSA analysis of USOE AFR data FY2012-FY2014

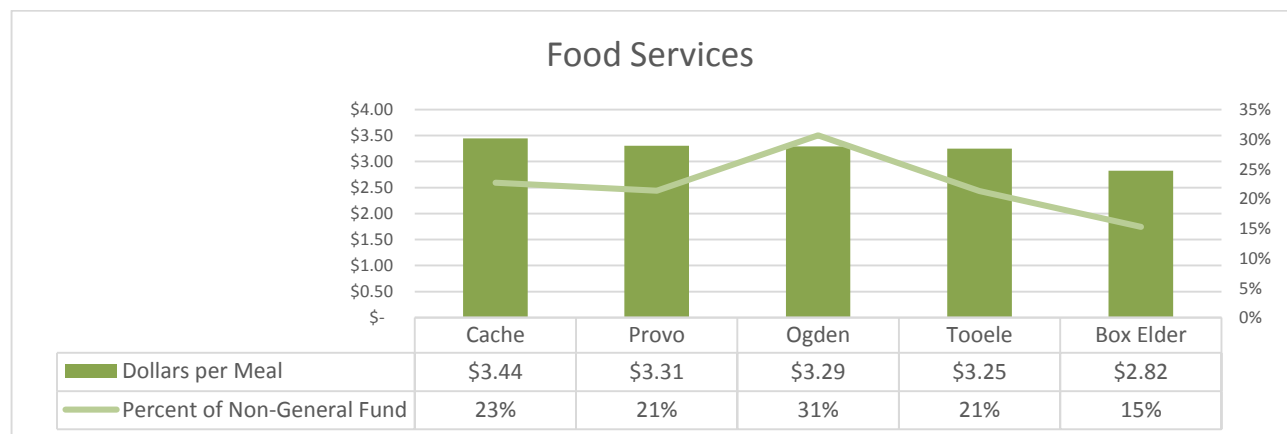
Medium Urban



OSA analysis of USOE AFR data FY2012-FY2014

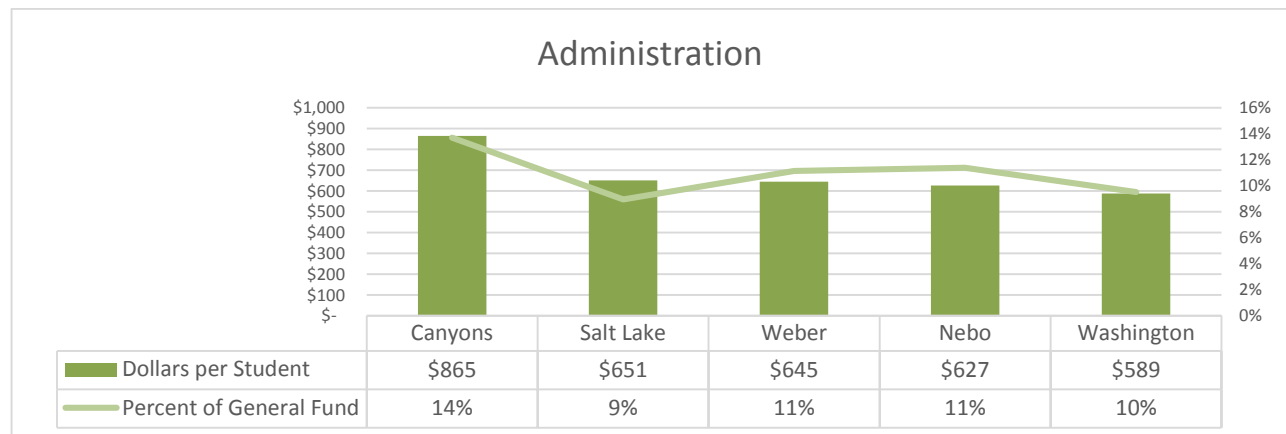


OSA analysis of USOE AFR data FY2012-FY2014

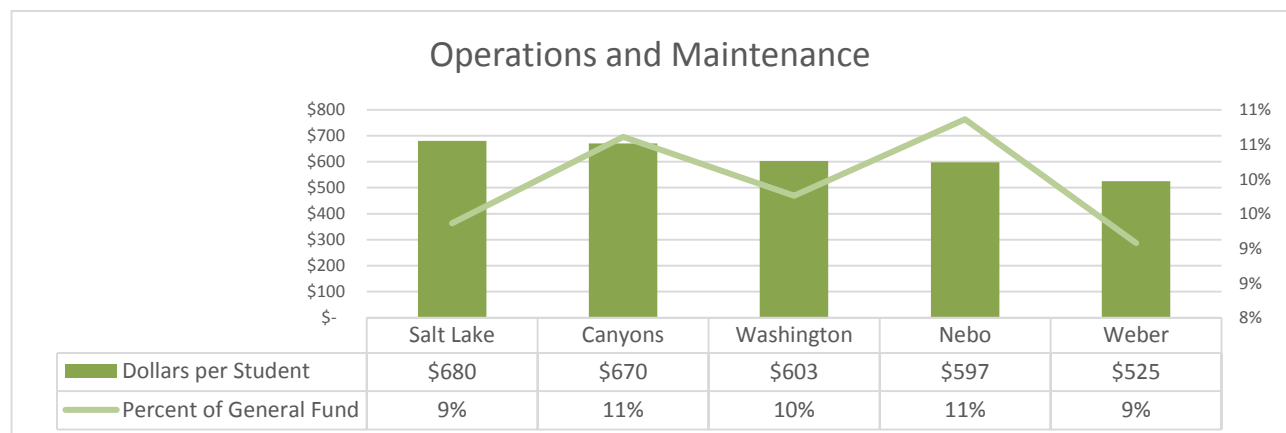


OSA analysis of USOE AFR data FY2012-FY2014

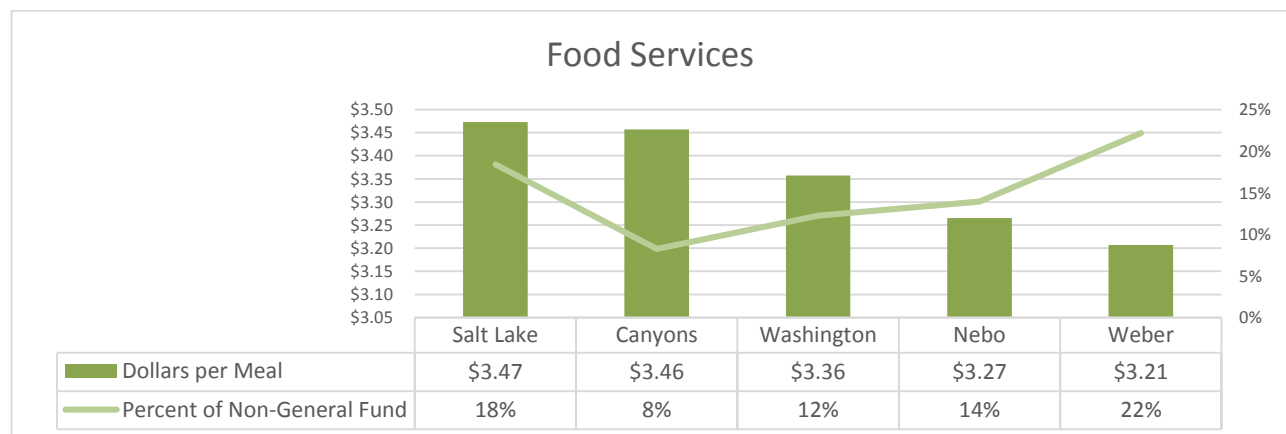
Large Urban



OSA analysis of USOE AFR data FY2012-FY2014

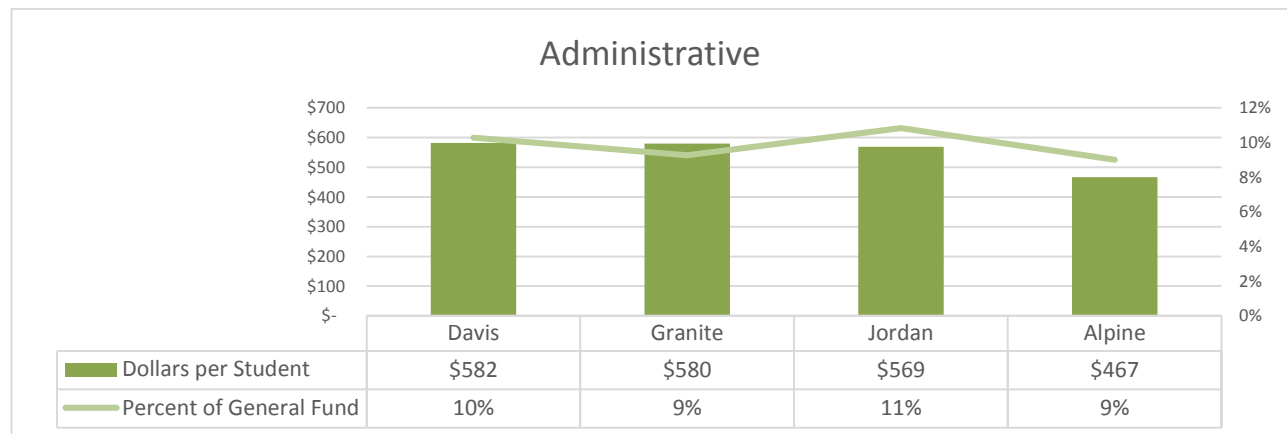


OSA analysis of USOE AFR data FY2012-FY2014

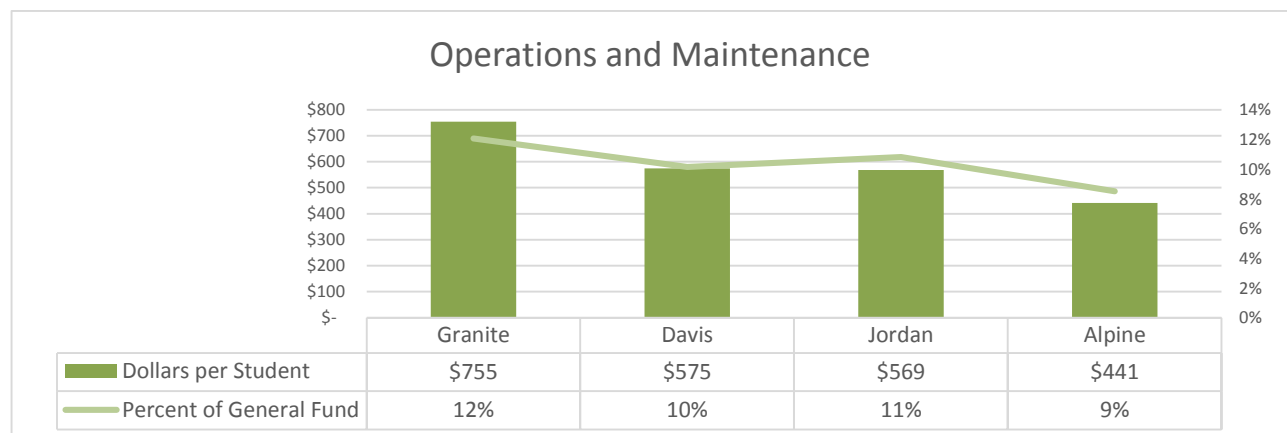


OSA analysis of USOE AFR data FY2012-FY2014

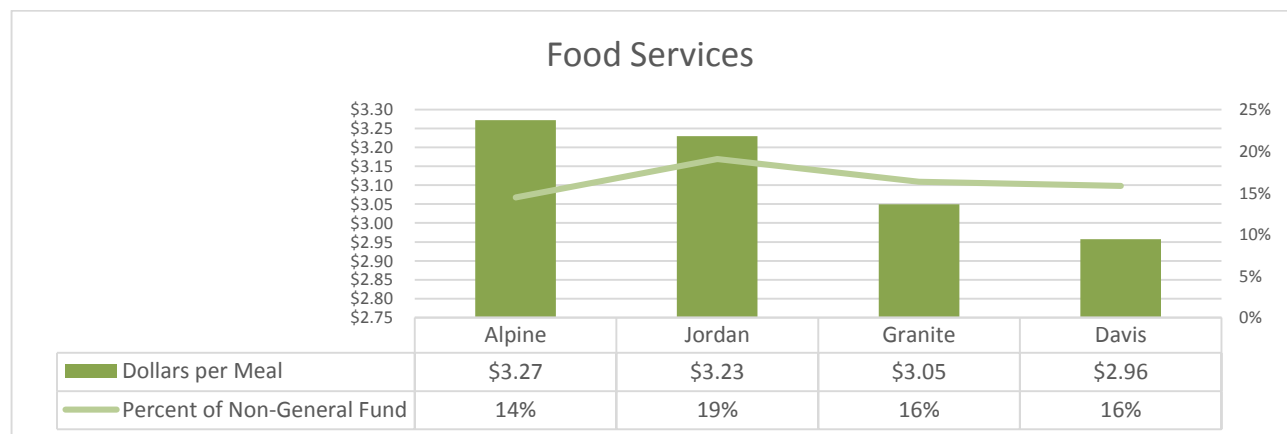
Macro Urban



OSA analysis of USOE AFR data FY2012-FY2014

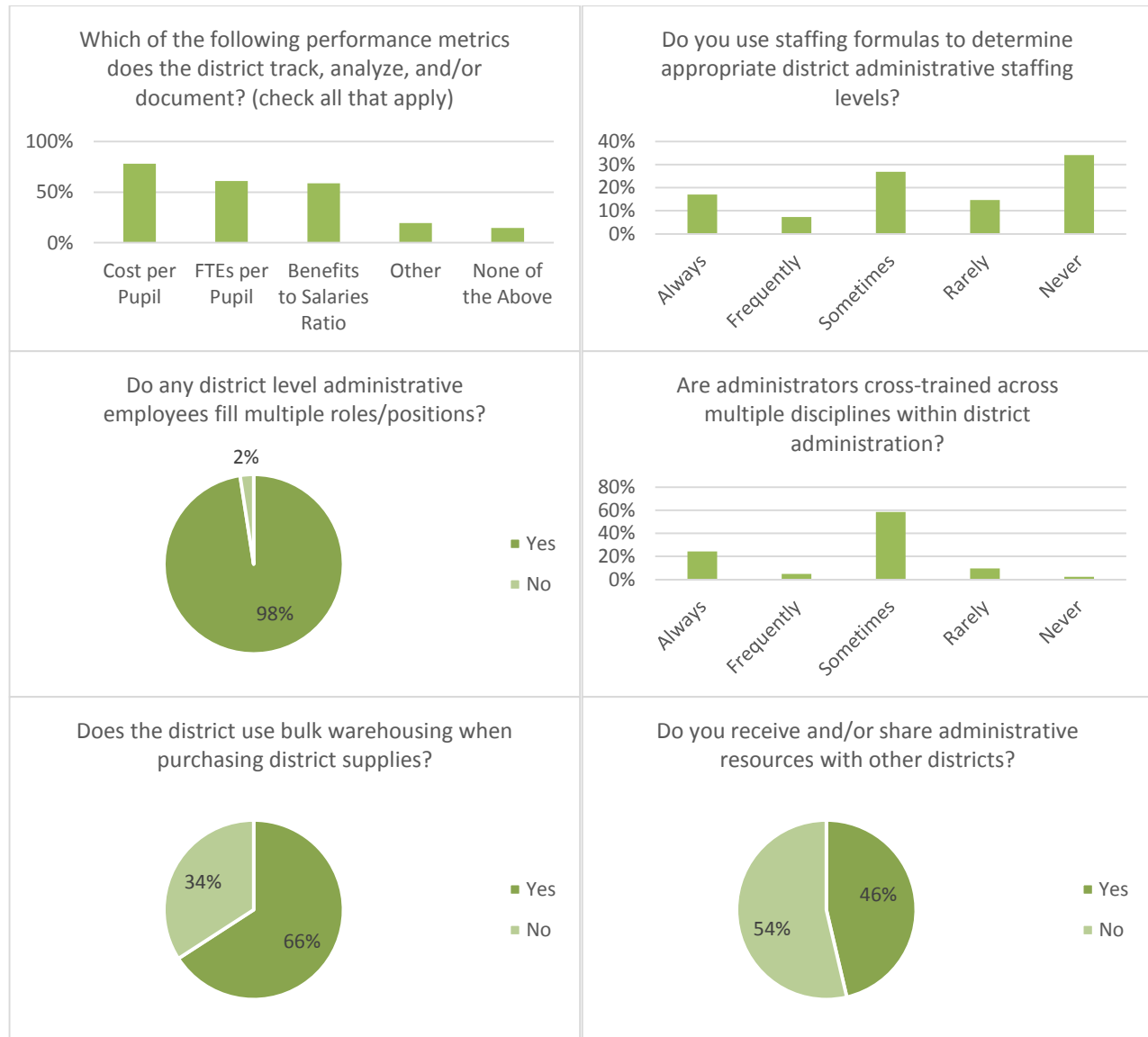


OSA analysis of USOE AFR data FY2012-FY2014

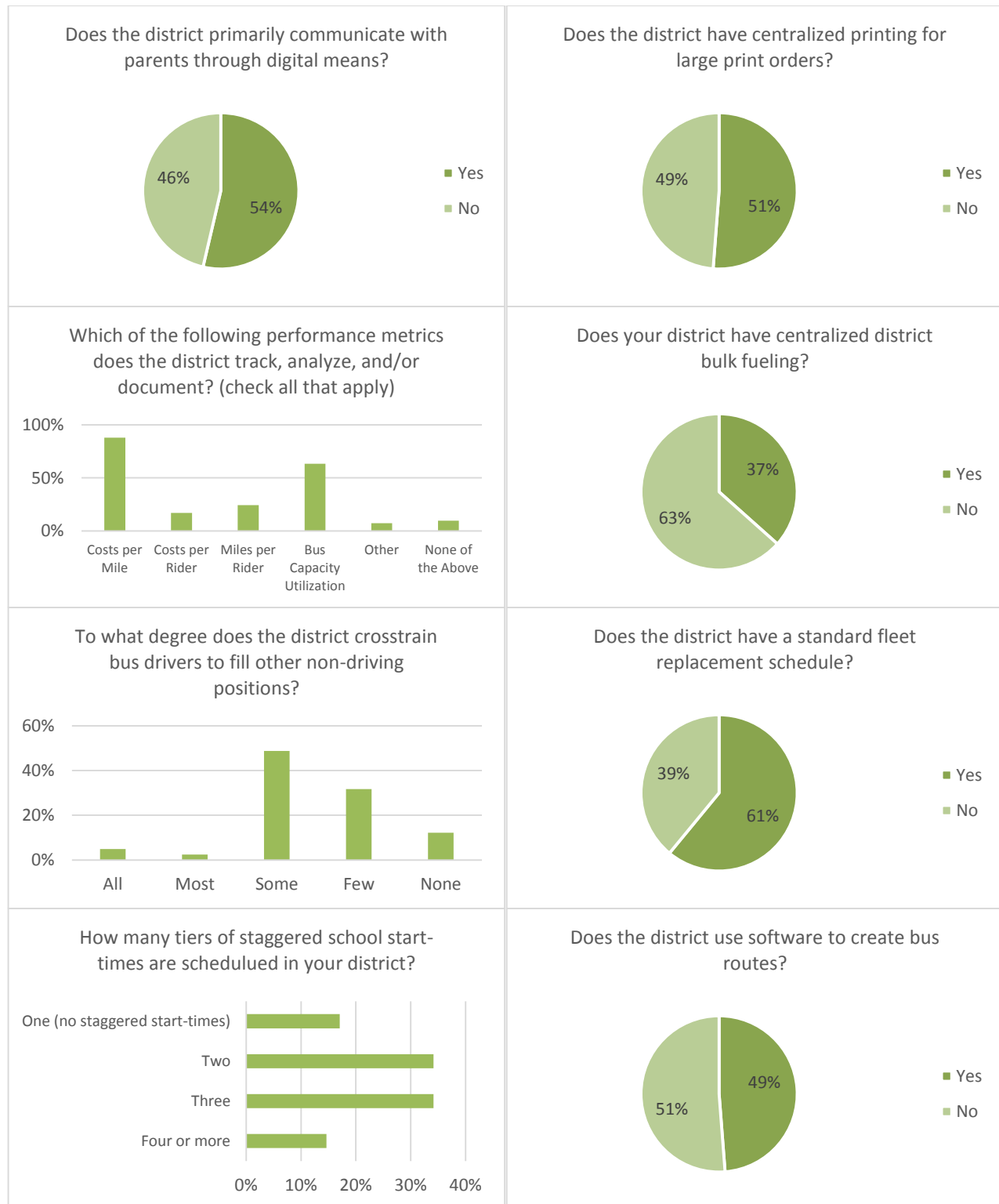


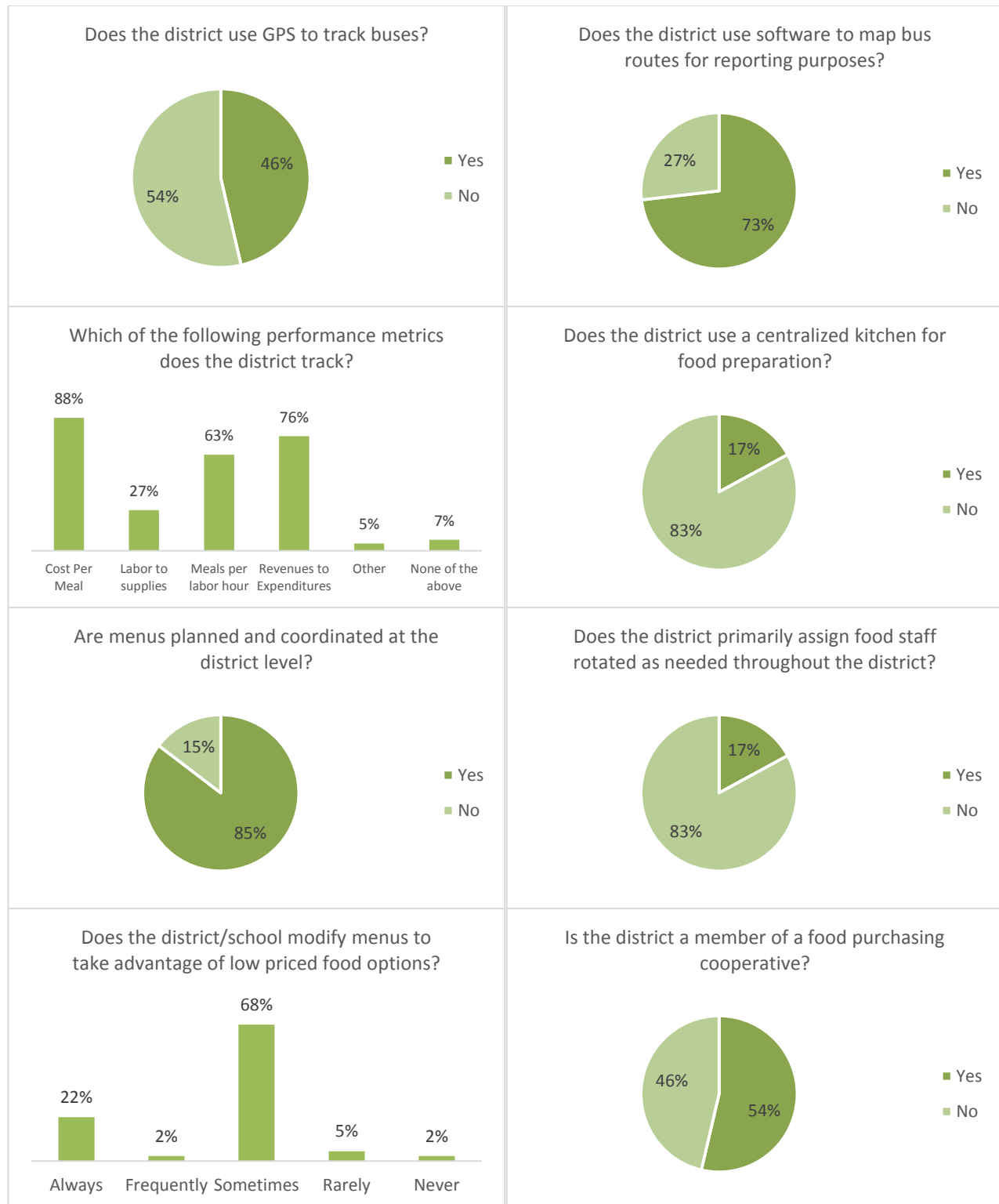
OSA analysis of USOE AFR data FY2012-FY2014

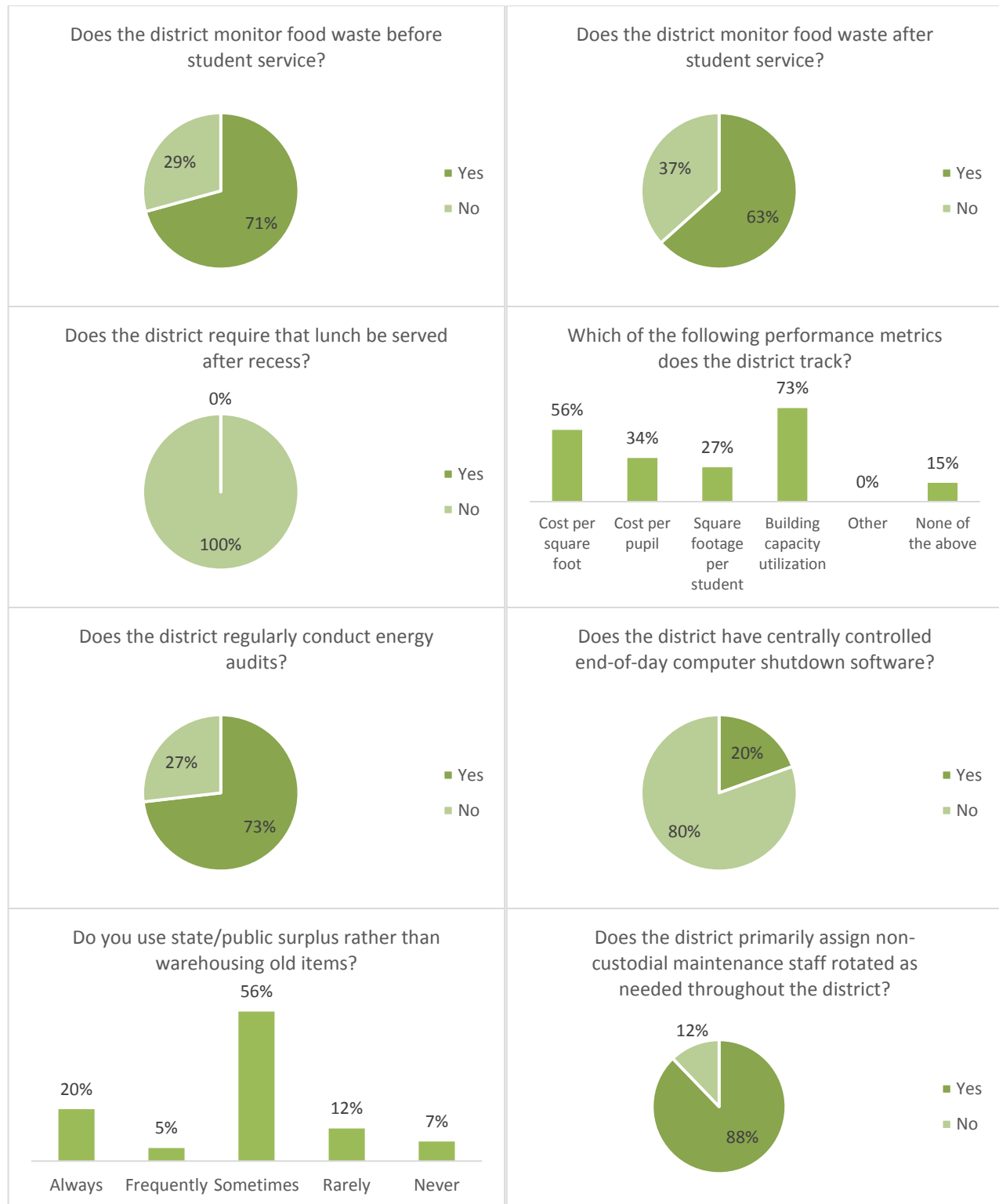
Appendix C LEA Business Administrator Survey Summary⁵⁴



⁵⁴ Business administrators from all 41 school districts responded to our survey.







OSA Analysis of LEA BA Survey

State Board of Education Response

Page Left Blank Intentionally



UTAH STATE BOARD OF EDUCATION

David L. Crandall, Chair

David L. Thomas, First Vice Chair

Jennifer A. Johnson, Second Vice Chair

Dixie L. Allen

Laura Belnap

Leslie B. Castle

Barbara W. Corry

Brittney Cummins

Linda B. Hansen

Mark Huntsman

Stan Lockhart

Jefferson Moss

Spencer F. Stokes

Terryl Warner

Joel Wright

Brad C. Smith, Chief Executive Officer

Lorraine Austin, Board Secretary

October 15, 2015

David Pulsipher, Performance Audit Director
Office of the Utah State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
P O Box 142310
Salt Lake City, UT 84114-2310

Re: Management Response to Performance Audit No. 15-03 A Performance Audit of
Financial Reporting in Public Education

Dear Mr. Pulsipher:

This letter represents the management response to the Utah State Auditor Performance
Audit Number 15-03: A Performance Audit of Financial Reporting in Public Education.

We appreciate the opportunity to receive the above referenced Audit. In general the Audit
points us to greater financial reporting clarity and attention would provide mechanisms and
means to evaluate the efficacy of programs, the desirability of various expenditures, and the
performance of systems to improve educational outcomes for students. We fully support
these desirable outcomes.

Some of the recommendations suggest an ability to exercise control over districts and
charter schools (hereinafter collectively "local education agencies" or "LEAs") that simply
does not exist. Utah law expressly provides that the Board "may not govern, manage, or
operate school districts, institutions, and programs, unless granted that authority by statute".
Utah Code Ann. § 53A-1-401(2). The same section provides the Board with the ability to
implement rules and to withhold funds from LEAs who fail to comply with rules implemented
by the Board. Utah Code Ann. § 53A-401(3). Accordingly, the Board has a combination of
regulatory authority, as well as the ability to engage in persuasion. LEAs are independent
legal entities, with independent legal existence and duties, and not part of a hierarchical
command and control structure.

Response to Finding 1

Finding 1 alerts us and LEAs to the potential to use the Utah Public Finance Website (UPFW) as a financial resource though this reminder seems somewhat outside the intent of the UPFW that it “permit taxpayers to view, understand, and track the use of taxpayer dollars”. Utah Code Ann. § 63A-3-402(2). Additionally, we are aware that at present, financial systems must be changed and improved in order to facilitate the level of analysis the performance audit favors. Having state-level capacity to review classroom level expenditures is critical. At present however, no state level system, including the UPFW facilitate such review. We look forward to seeking ways and means to facilitate the deep review that the audit favors. We share common cause on this point.

Recommendation 1

We concur with this recommendation. With the substantial growth in the number of LEAs and the varying level of experience of financial personnel within LEAs, a uniform chart of accounts and accounting manual and training is necessary to ensure consistency in classification of transactions. We will direct the School Finance section to study the National Center for Education Statistics chart of accounts, the uniform chart of accounts, and LEA adopted chart of accounts to identify inconsistencies. The School Finance section will work the LEAs to adopt a uniform chart of accounts that meets the needs of state, federal, and local reporting. The success of this endeavor will depend upon sufficient staffing levels, adequate systems, cooperation of the LEAs, and access to detailed accounting transactions. We will evaluate this recommendation, along with other recommendations and initiatives of the Board, to determine appropriate resource allocation and implementation dates.

Recommendation 2

As noted previously, we do not have command of LEAs. Moreover this recommendation must be viewed in light of our overall resource allocation, priorities policies and financial constraints. While the recommendation is well taken, providing training on best practices entails a utilization of Board resources that is always subject to our evaluation of our ongoing duties.

We believe it is critical for the public to understand that the various financial reports and data submissions required of all LEAs serve different purposes and include different data by design. The audited financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and accounting standards set by the Governmental Accounting Standards Board (GASB). The Annual Financial Report (AFR) and the Annual

Program Reports (APR) are based on the financial transactions recorded in each LEA's accounting system and are used to report the activity of state and federal programs, and local funds in more detail than the audited financial statements. The AFR and APR reports are prepared on the modified accrual basis of accounting, and the financial statements are prepared on the full accrual basis. Annually, the USOE reconciles the AFR and APR to the LEAs audited financial statements to ensure consistency in financial reporting.

Required transaction submissions to the UPFW include a quarterly upload of revenue and expenditure transactions, and annual submissions of employee compensation information. These uploads contain only a subset of the LEA's accounting transactions. When LEAs engage in internal control and financial reporting processes, miscodings and errors are detected and corrected. Variances in dates of transactions, not updating fourth quarter submissions with year-end or audit adjustments, and inconsistencies in the queries that pull these transactions from the LEA's accounting systems, will cause variances between transactions in UPFW and the other LEA reports (e.g., financial statements, AFR, and APR). While a useful tool for the public, the UPFW was not designed as a comprehensive accounting system, nor was it intended to represent or replicate with exactness the audited financial statements, the financial reporting process, or other reports that are prepared and submitted annually by the LEAs. The UPFW was also not intended as a data analysis tool for entities submitting information or other policy-making purposes.

We concur that there are some LEAs that do not appear to be in compliance with submission requirements of the UPFW. Clear guidelines to LEAs will increase the accuracy and reliability of transactions and financial reports. However, this does not constitute a failure on the part of these LEAs to provide accountability for the expenditure and receipt of public funds through their accounting systems, audited financial statements, and other financial reports. Additionally, given the numerous educational entities submitting data to the UPFW, with data coming from a variety of systems, as well as the complexities associated with educational financial reporting, having a state office education representative on the Transparency Advisory Board would help ensure accurate reporting and more efficient resolution of interface concerns to the UPFW.

Recommendation 3 and 4

We do not have full access to detailed LEA financial data, or detailed transparency data, aside from the public website interface, and presently, do not participate in UPFW's policy direction. Rather, the USOE uses summary data or obtains up-to-date transactions from the LEAs accounting systems to monitor, review, and otherwise fulfill the purposes of general supervision and control of the public education system. Various programs within the USOE do connect financial and performance data; however, statewide implementation at the level recommended has not occurred due to limited resources and limited access to

data. We believe that local boards also use financial and performance data to assess risk and make decisions regarding implementation and assessment of current programs. Over the past few years, we have reviewed different types of systems that would provide a more reliable source of detailed financial transactions from the LEAs. This data could be used to analyze consistency in account classifications; analyze the use of state, federal, and local funds; develop performance measures; and increase staff efficiency in the USOE. Presently, we do not have sufficient financial means or staffing levels necessary to design, implement, or train over ten dozen LEAs on any level of system. An investment of this magnitude represents a significant policy decision that will require the careful analysis of risk, student privacy, costs and benefits, and the resources necessary at both the state and LEA level, as well as substantial legislative support and appropriations.

Response to Finding 2

We express appreciation to the Office of the State Auditor for the substantial amount of time and personnel resources necessary to survey the LEAs and develop potential performance measures, while recognizing the associated inherent limitations, such as those identified in Finding 1 above, and assumptions of such an analysis. We view this as a starting point of conversations between the LEAs, local boards, and policy makers in identifying and reporting metrics correlated with lower costs and other desired outcomes.

Recommendations 1 and 2

The careful analysis of data and correlations between desired outcomes and cost savings are areas that should continue to be studied. We take this analysis seriously, as one aspect of our duties and obligations in allocating resources wisely.

Response to Finding 3

We take Finding 3 seriously. It indicates that in as many as 5,500 identified transactions, LEAs may have inadvertently disclosed student level data on the UPFW. Your analysis may understate the problem very substantially. As we are committed to absolute student privacy, as soon as this risk became apparent, we and your office reached agreement to inform LEAs so that they could begin the process of rectifying any disclosures, though the audit was still pending. Such cooperation speaks well of our respective offices.

When we were made aware of the potential data disclosures, we immediately contacted every affected LEA. This amounted to 40 district and charter schools. A specimen copy of the letter sent to each of these LEAs is attached hereto. Each of these LEAs responded

immediately and with alacrity to cure the problem. Within five business days a group led by the State Superintendent, joined by LEAs, and the UPFW, had met and agreed on a mechanism to protect student level data immediately, and to rectify the disclosures which may have occurred in the 2009-2015 time frame identified by the Auditor's Office. Additionally LEAs were tasked by the State Superintendent to correct this matter going forward so that such disclosures do not occur again.

It should also be noted that not all potential appear to have been violations of student privacy. In many instances no disclosure at all was made. Duplicate names, truncated names, and employment records may have been included in potentially problematic transactions. To our understanding these transactions have been corrected so that no ongoing disclosure has been made.

Recommendation 1

We concur with recommendation #1. We have taken aggressive action to ensure that this recommendation has been addressed. We are reasonably assured that each impacted LEA has undertaken action to protect student data, and to ensure that no further disclosures occur.

Recommendation 2

We concur with Recommendation 2. It appears that notification to parents is a matter of best practices. It does not appear that notices are required under Utah's Student Privacy section, unless the disclosure has occurred as a result of a "data breach." Federal Privacy Law does not appear to contemplate any disclosure in such circumstances. In this case no data breach whatsoever has occurred. Student level data was released, inadvertently, as LEAs attempted to comply in good faith with UPFW statutes. Nevertheless, we believe that disclosure is a best practice.

Recommendation 3

We concur with Recommendation 3. We believe that the current situation has begun a process to assist us and LEAs in fulfilling the requirements of Recommendation 3.

Recommendation 4

We concur with Recommendation 4. We have staff which could engage in the process described in Recommendation 4. We also recommend that LEAs the use of internal and external audit processes to help engage in the work described in Recommendation 4.

David Pulsipher
Page 6
October 19, 2015

Moreover, this recommendation must be viewed in light of the Board's overall resource allocation, priorities, policies, and financial constraints. While the recommendation is well taken, providing training on best practices entails a utilization of Board resources that is always subject to the Board's evaluation of its ongoing duties.

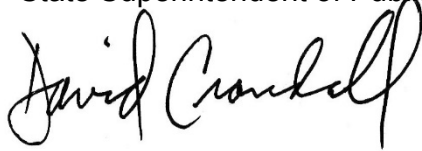
Conclusion

We appreciate the opportunity to work cooperatively and in partnership with the State Auditor's Office in the completion of this Audit.

Respectfully,



Brad C. Smith
State Superintendent of Public Instruction



David L. Crandall, Chair
Utah State Board of Education

Attachment

September 24, 2015

Superintendent

Board President

Re: Potential Student Privacy Violations

Dear Superintendent Board President:

The Office of the Utah State Auditor ("OSA") has recently completed a performance audit of various financial components of our state education system. As part of that audit, OSA had occasion to review various district transactions as reported on the Utah Public Finance Website ("UPFW"). The review of your district's transactions on UPFW reveals serious potential violations.

Student privacy is protected by federal and state law. 20 U.S.C. § 1232g (Family Education Rights and Privacy Act ("FERPA")), Utah Code Ann. §§ 53A-13-301 through 302. Each of these statutes—and others—are implemented by administrative rules. Personally identifiable student information is strongly protected from disclosure by these statutes and regulations. Under federal law, the ultimate penalty for a violation of the provisions of FERPA is the cessation of all federal education funding to the state.

Any violation of student privacy must be taken extraordinarily seriously and even a potential violation must be systematically reviewed and eliminated. In the course of a performance audit essentially unrelated to student privacy, the OSA observed what appear to be violations of student privacy on the UPFW. In particular, by disclosing certain financial transactions on the transparency website without scrubbing personally identifiable information, your district appears to have made an inappropriate public disclosure of protected data.

These disclosures must be corrected immediately. The OSA's audit report will be made public within the next few weeks and it is imperative that these disclosure problems be corrected before that time. Unfortunately, correcting this problem is not limited to a single year nor does it appear easy to correct. Moreover, since the disclosures are embedded in the data forwarded from your district to the UPFW, the Utah State Office of Education ("USOE") simply has neither the means nor the ability to cure this problem. Under state and federal law, however, USOE does have the obligation to insure and compel the full protection of student data.

Superintendent and Board President
September 24, 2015
Page 2

Correction of this problem will require substantial cooperation between your district, the Utah Division of Finance (which oversees the UPFW), and USOE. USOE stands ready to offer any assistance we can. However, it falls to your district to immediately create a plan to address, correct, and remedy each disclosure. Under state and federal law, notice must be provided to each student and parent whose data was wrongly disclosed. The state transparency data must be scrubbed in a way that allows the disclosure of expenditures without contravening privacy obligations.

Accordingly, you must submit a written plan of remediation returned to me within five days of your receipt of this letter. Time is of the essence in this matter. USOE stands ready to offer any technical assistance we can and will happily facilitate communication between entities, upon request. Finally, please forward an acknowledgment of your receipt of this letter by email to me (brad.smith@schools.utah.gov).

Respectfully,

A handwritten signature in blue ink that reads "Brad C. Smith". The signature is fluid and cursive, with the first name "Brad" and last name "Smith" clearly legible.

Brad C. Smith
State Superintendent of Public Instruction

cc: Utah State Board of Education
Governor Gary Herbert